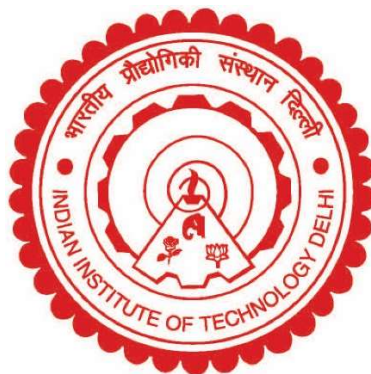


**EXPLORING THE RELATIONSHIP BETWEEN
CORPORATE GOVERNANCE MONITORING
MECHANISMS AND SELECT CORPORATE FINANCE
DECISIONS: EMPIRICAL EVIDENCE FROM INDIA**

SAMRIDHI SUMAN



**DEPARTMENT OF MANAGEMENT STUDIES
INDIAN INSTITUTE OF TECHNOLOGY DELHI
JANUARY 2024**

© Indian Institute of Technology Delhi (IITD), New Delhi, 2024

**Exploring the Relationship between Corporate Governance
Monitoring Mechanisms and Select Corporate Finance Decisions:
Empirical Evidence from India**

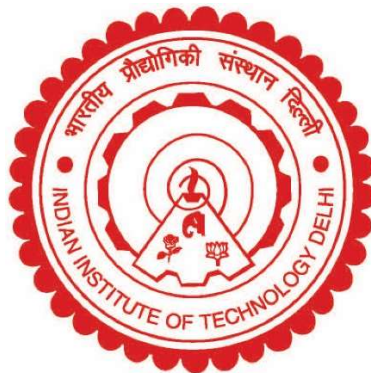
by

Samridhi Suman

Department of Management Studies

Submitted

in fulfillment of the requirements of the degree of Doctor of Philosophy
to the



Indian Institute of Technology Delhi

January 2024

Dedicated to

*my brother who continues to persist with unwavering smile and
determination despite all the hardships.*

Acknowledgments

“Light to lighten.”

This oddly beautiful phrase summarizes the formative years of my educational journey. As my school’s motto, it symbolizes the power of the light of hope in dispelling the darkness and dissemination of knowledge in conquering ignorance and illuminating the path of progress. The recent pandemic reflected the indispensability of research in offering a glimmer of hope for a better future in times of uncertainty through the development of life-saving vaccines and evidence-based policies. Inspired by the essentiality of research and my yearning to be a lifelong learner, I pursued the Ph.D. degree to contribute to a better understanding of the area of corporate governance and finance. This thesis represents the culmination of years of research to attain the underscored goal.

I want to acknowledge that it would not have been possible for me to navigate the vast and oftentimes choppy waters of doctoral research as a novice without the guiding light of my supervisor, Prof. Shveta Singh. I’m highly indebted to her for recognizing and helping me realize my potential as a researcher by expressing immense belief in my work yet constantly pushing me to do better to reach new heights. Despite her demanding schedule, she has always attempted to promptly address and guide me on my professional and personal concerns. Her compassionate and uplifting words during my moments of distress have empowered me to persist and move ahead with renewed resolve. Her mentorship has indeed been pivotal in nurturing my personal and scholarly growth.

I also want to profess my heartfelt gratitude to the members of my Students Research Committee: Prof. P. Vigneswara Ilavarasan (Chairperson, Department of Management Studies, IIT Delhi), Prof. Kanika T. Bhal (Internal Expert, Department of Management Studies, IIT Delhi), and Prof.

Purnima Singh (External Expert, Department of Humanities and Social Sciences, IIT Delhi) for sparing their valuable time in providing insightful and encouraging feedback, which has significantly benefitted my research work. I also want to extend a token of thanks to Prof. R.K. Arora (External Examiner for Senior Research Fellowship Review, IMI Delhi) for his constructive comments that have been instrumental in further refining my empirical study. In addition, I'm indebted to Prof. Amlendu Kumar Dubey for developing and enriching my conceptual knowledge of Econometrics. I also want to take this moment to appreciate the efforts of the department's administrative staff, who work sincerely to ease the students' lives by promptly delivering any required academic assistance. Furthermore, I am grateful to the University Grants Commission for its financial support.

I also want to take this opportunity to dwell on the role of my Ph.D. peers and colleagues in making my doctoral journey less arduous. Anjali Sain, Monika Dahiya, Juhi Gupta, and Surbhi Gupta have been transformative building blocks of my tenure as a Research Scholar. Their round-the-clock presence to listen, empathize, and offer helpful words of advice and motivation has enabled me to sail through the challenging times. My years as a Ph.D. student at the department would have been quite amiss without the presence of these brilliant yet equally kind women. I'll always be obliged to them for walking with me to reach this shared milestone. In addition, I am deeply thankful to Meghna Sethi for being side by side with me all along the trials and triumphs of our academic pursuits since our M.Com days. She has become an indispensable part of my life and I will miss seeing her daily in the days ahead.

My heart is also filled with immense gratitude for Mamta Mishra, who always strived to look after me and provided a shoulder to lean on, regardless of the circumstances. The bond and camaraderie I share with her have made this journey not just academically fulfilling but emotionally rewarding as well. I'm also glad for the friendship I built with Ayushi Deb Roy over

the course of the Ph.D. program. Our shared experiences and innate understanding, coupled with her empowering belief in my capabilities, have been a source of solace for me during times of distress. I also want to thank Bhavya Srivastava and Navendu Prakash for always being prompt in extending their invaluable support whenever required. Our lively conversations have made my doctoral years more joyful and memorable. I'm also grateful to Swati Garg, whose constant cheers and genuine enthusiasm for my success have bolstered my confidence every time during our interactions and profoundly impacted my overall well-being. I also appreciate the efforts of Harshita Gupta in helping me out during my moments of need. Words can't also be enough to thank Damini Kumari, Shagun Sarraf, Sugandh Ahuja, and Yashika Sardana for soothing and enriching my experiences as a researcher in training. Lastly, I want to thank my seniors, Dr. Monika Singla, Dr. Nisha Mary Thomas, Dr. Noor Ulain Rizvi, Dr. Vikas Gupta, and Dr. Yukti Bajaj, from the bottom of my heart. They have always been generous in giving their precious time in guiding and advising us at every juncture of the Ph.D., which has facilitated us in striding over new challenges with relative ease.

I would also like to acknowledge the incredible help rendered by my academic peers beyond the department. Firstly, I want to thank Prachi Jain (Doctoral Scholar, Indian Institute of Management Indore) wholeheartedly for always being willing to resolve my research queries and issues. I'm also happy that the pursuit of the doctoral degree enabled me to reconnect with Sarika Rakhiani (Doctoral Scholar, Department of Financial Studies). Our numerous discussions over our respective research and exchange of countless ideas have been fundamental in expanding my horizons and broadening my perspective. I'm also grateful to Shehzala (Doctoral Scholar, Indian Institute of Management Ahemadabad), who never failed to remind me of her utmost faith in my abilities during our umpteen conversations and chitter-chatter we had over the years. As we almost started our Ph.D. journey together, I was always comforted by the inherent thought that I have a big sister to fall back upon during adversities.

I would also like to seize this opportunity to express my profound gratitude to my friends from all walks of life. Anchal Oberai, Ayushi Dadhich, Prerna Bhatnagar, and Smridhi Gupta did not hesitate once to provide me a shoulder to cry on whenever life threw me a curveball. I'll always be indebted to them for being my anchors during moments of uncertainty and self-doubt. I'm also extremely thankful to Apurva Sapra for being a patient listener and providing me with a safe space to vent, which has always brought me a sense of tranquility and balance. I'm also glad to have Akansha Damani, Kritika Godia, Parita Goyal, Roshni Dhamija, and Shubhali Chopra by my side. They have always rooted for me no matter the circumstances and believed more in my potential than I ever could. I also want to thank Daksh Jain, Manav Garg, Mohit Jindal, Rahul Bambha, and Rishabh Rana for constantly pushing me to work hard toward realizing my personal and professional best. Lastly, I would be remiss if I failed to acknowledge the pivotal role of my former Project Manager and friends at my previous job. Ankit Gulati, Prishu Kagra, and Shruti Arora extended generous cooperation and tremendous support in helping me fulfill my aspiration of pursuing a Ph.D. degree.

Finally and most importantly, I want to say a heartfelt thank you to the strong pillars of my life, my parents, Mr. Ravi Sawlani and Mrs. Sangeeta Sawlani and my brother, Saksham Sawlani. Words will fall short of conveying my overpowering gratitude for their unconditional love and unwavering support. In their earnest desire to ensure my well-being, they have gone above and beyond to make my doctoral journey as smooth as possible. They took care of my daily chores and responsibilities when the going got tougher and ensured that I was always well-fed. Their everlasting concern and guidance along the way were a comforting reassurance that I was not alone in this endeavor. They have been my biggest cheerleaders and have shown firm conviction in my capabilities, which has given me the strength to carry on, even during the most challenging times. They have worked tirelessly behind the scenes to uplift me to make sure that this thesis

sees the light of day. I also want to thank my Mama and Mami profusely for standing with our family during our difficult times.

I will conclude by saying that as much as I have worked towards building up this piece of research work, it has also propelled my personal and professional growth. This thesis has shaped me into a better-rounded individual who can't wait to spread the light of knowledge further.

Samridhi Suman

Abstract

Corporate failures and frauds have illustrated the importance of effective corporate governance in ensuring a company's survival and success. Despite the observed reality, the extant literature produces inconclusive evidence concerning the impact of corporate governance mechanisms on corporate performance and valuation. In order to disentangle the underlined dichotomy, the present study makes use of a two-pronged approach to understand the efficacy of various monitoring mechanisms in a better manner. First, the scope of the empirical investigation is re-centered to assessing the ramifications of corporate governance on corporate finance decisions, which have been noted to affect a firm's value. Correspondingly, the study examines the influence of corporate governance monitoring mechanisms on the specific aspects of investment, capital structure, and dividend decisions. Second, it also attempts to glean the contingent effects of the monitoring devices by determining how their effectiveness differs according to heterogeneous organizational circumstances. Collectively, these analyses can deepen the understanding of the performance effects of corporate governance.

The study is contextualized in India, where conflicts between controlling and minority shareholders are more prevalent. It employs the sample of non-financial entities listed on the NIFTY 500 index, which is investigated over a period of 10 years from FY 2010 to FY 2019. In addition, the underscored research aims are examined by adopting dynamic panel data models that are estimated using the two-step system GMM technique. The organizational contexts are defined based on a company's size, age, growth prospects, financial condition, the tenure of its CEO, and degree of industry concentration.

In consonance with the stated outcome variables of interest, the initial analyses focus on the implications of corporate governance monitoring mechanisms on a firm's investment decisions. The obtained results reveal that higher controlling ownership is associated with lower efficiency

of long-term investment projects by stimulating both under-investment and over-investment. However, the observed negative influence of controlling shareholders on investment efficiency is reported to be more pronounced in the years leading up to the institution of a more robust governance regime by the Companies Act of 2013 (pre-reform period). Furthermore, a joint CEO-Chair is noted to magnify the over-investment issue and lessen the under-investment problem. The determined impact of controlling owners and CEO duality is conditional upon specified environmental factors. Additionally, the contextual effects on efficient investment outlay are also identified for board size, board independence, and non-controlling blockholders. When the empirical investigation is extended to concentrate on short-term investments, the findings yield that independent directors and non-controlling large owners curtail discretionary cash holdings more in the period with the new Companies Act in operation (post-reform period). Besides their notable contingent impacts, the governance role of large and gender-diverse boards assumes prominence when the lifecycle stage of a business enterprise is considered.

The research then proceeds to examine how corporate governance affects capital structure decisions. In this regard, it is observed that controlling shareholders keep the leverage ratio down to avert the disciplinary role of debt and minimize bankruptcy risk. Although their diminishing influence is more salient in the pre-reform period, the monitoring by highly independent boards is inferred to enhance the debt levels in the post-reform period. Their noted effect on capital structure composition varies according to a corporation's situational characteristics. Non-controlling large owners and usage of non-audit services also exhibit contextual impacts on the capital gearing ratio. As the purview of the analyses shifts to the cost of financing, it is concluded that controlling ownership and board independence have a negative and stronger influence on the investors' required rate of return in the post-reform period. While their beneficial impact is limited to certain types of companies, other governance variables, including CEO duality, additional

blockholders, and higher non-audit fees, affect the cost of capital when organizational contingencies are addressed.

Lastly, the study evaluates the ramifications of corporate governance monitoring mechanisms on dividend decisions. It is observed that gender-diverse boards pay lower and more stable dividends. Their reported effect is concentrated in the pre-reform period and is more prominent for firms with attractive growth prospects. Contrary to their inferred advisory role, empirical evidence is also obtained in favor of their monitoring functioning as they are indicated to distribute more dividends when the entrenchment of long-tenured CEO rises. Similarly, the effectiveness of oversized boards, CEO duality, and controlling and non-controlling large shareholders is demonstrated to depend on a corporation's conditions. Further, it is also noted that a higher percentage of independent directors is linked with lower dividend stability.

In line with all the inferred findings, the study proffers some key recommendations to the practitioners. First, they collectively emphasize that corporate governance monitoring mechanisms do not uniformly affect the examined financial management decisions. Their influence is more or less conditional upon distinctive organizational contexts. Corollary to this observation, policymakers are suggested to take a re-look at their one-size-fits-all approach for controlling agency conflicts. Nonetheless, the results primarily support the continued regulatory effort to improve the corporate governance framework in India as it is evident that the efficacy of superior monitoring devices strengthens and the adverse influence of controlling owners declines in the post-reform period. Furthermore, the management of different companies is also advised on appropriate corporate governance mechanisms that it can employ given the firm's circumstances to reduce the cost of acquiring funds. Lastly, investors are urged to inspect beyond the apparent metrics by considering planned and actual investment expenditures and returns on various projects to ensure that their supplied capital is optimally allocated to productive use.

सार

कॉर्पोरेट विफलताओं और धोखाधड़ी ने कंपनी के अस्तित्व और सफलता को सुनिश्चित करने में कॉर्पोरेट प्रशासन के महत्व को स्पष्ट किया है। देखी गई वास्तविकता के बावजूद, मौजूदा साहित्य कॉर्पोरेट प्रदर्शन और मूल्यांकन पर कॉर्पोरेट प्रशासन तंत्र के प्रभाव से संबंधित अनिर्णायक साक्ष्य प्रस्तुत करता है। रेखांकित द्विभाजन को अलग करने के लिए, वर्तमान अध्ययन विभिन्न निगरानी तंत्रों की प्रभावकारिता को बेहतर तरीके से समझने के लिए दो-आयामी दृष्टिकोण का उपयोग करता है। सबसे पहले, अनुभवजन्य जांच का दायरा कॉर्पोरेट वित्त निर्णयों पर कॉर्पोरेट प्रशासन के प्रभावों का आकलन करने के लिए हाल ही में किया गया है, जो एक फर्म के मूल्य को प्रभावित करने के लिए नोट किया गया है। तदनुसार, अध्ययन निवेश, पूंजी संरचना और लाभांश निर्णयों के विशिष्ट पहलुओं पर कॉर्पोरेट प्रशासन निगरानी तंत्र के प्रभाव की जांच करता है। दूसरा, यह निगरानी उपकरणों के आकस्मिक प्रभावों को यह निर्धारित करने का भी प्रयास करता है कि विषम संगठनात्मक परिस्थितियों के अनुसार उनकी प्रभावशीलता कैसे भिन्न होती है। सामूहिक रूप से, ये विश्लेषण कॉर्पोरेट प्रशासन के प्रदर्शन प्रभावों की समझ को गहन कर सकते हैं।

यह अध्ययन भारत में प्रासंगिक है, जहां नियंत्रक-अल्पसंख्यक शेयरधारकों के संघर्ष अधिक प्रचलित हैं। यह निफ्टी 500 इंडेक्स पर सूचीबद्ध गैर-वित्तीय संस्थाओं के नमूने को नियोजित करता है, जिसकी वित्त वर्ष 2010 से वित्त वर्ष 2019 तक 10 वर्षों की अवधि में जांच की जाती है। इसके अलावा, अनुमानित गतिशील पैनल डेटा मॉडल को अपनाकर रेखांकित अनुसंधान उद्देश्यों की जांच की जाती है। दो-चरण प्रणाली GMM तकनीक का उपयोग करना। संगठनात्मक संदर्भों को कंपनी के आकार, आयु, विकास की संभावनाओं, वित्तीय स्थिति, इसके सीईओ के कार्यकाल और उद्योग की एकाग्रता की डिग्री के आधार पर परिभाषित किया गया है।

ब्याज के कथित परिणाम चर के अनुरूप, प्रारंभिक विश्लेषण एक फर्म के निवेश निर्णयों पर कॉर्पोरेट प्रशासन निगरानी तंत्र के निहितार्थ पर ध्यान केंद्रित करते हैं। प्राप्त परिणामों से पता चलता है कि उच्च

नियंत्रण स्वामित्व, कम-निवेश और अधिक-निवेश दोनों को उत्तेजित करके लंबी अवधि की निवेश परियोजनाओं की कम दक्षता से जुड़ा है। हालांकि, निवेश दक्षता पर शेयरधारकों को नियंत्रित करने के देखे गए नकारात्मक प्रभाव को 2013 के कंपनी अधिनियम (पूर्व-सुधार अवधि) द्वारा अधिक मजबूत शासन व्यवस्था की स्थापना के लिए अग्रणी वर्षों में अधिक स्पष्ट बताया गया है। इसके अलावा, एक दोहरे सीईओ को अधिक निवेश के मुद्दे को बढ़ाने और कम निवेश की समस्या को कम करने के लिए जाना जाता है। मालिकों और सीईओ द्वंद्व को नियंत्रित करने का निर्धारित प्रभाव निर्दिष्ट पर्यावरणीय कारकों पर सशर्त है। इसके अतिरिक्त, कुशल निवेश परिव्यय पर प्रासंगिक प्रभावों की पहचान बोर्ड के आकार, बोर्ड की स्वतंत्रता और गैर-नियंत्रित अवरोधकों के लिए भी की जाती है। जब अल्पकालिक निवेश पर ध्यान केंद्रित करने के लिए अनुभवजन्य जांच को बढ़ाया जाता है, तो निष्कर्ष निकलते हैं कि स्वतंत्र निदेशक और गैर-नियंत्रित बड़े मालिक नई कंपनियों के संचालन (सुधार के बाद की अवधि) के साथ अवधि में विवेकाधीन नकदी होल्डिंग्स को कम करते हैं। उनके उल्लेखनीय आकस्मिक प्रभावों के अलावा, बड़े और लिंग-विविध बोर्डों की शासन भूमिका प्रमुख हो जाती है जब एक व्यावसायिक उद्यम के जीवनचक्र चरण पर विचार किया जाता है।

इसके बाद शोध यह जांचने के लिए आगे बढ़ता है कि कॉर्पोरेट गवर्नेंस पूंजी संरचना निर्णयों को कैसे प्रभावित करता है। इस संबंध में, यह दिखाया गया है कि ऋण की अनुशासनात्मक भूमिका को टालने और दिवालियापन जोखिम को कम करने के लिए शेयरधारकों को नियंत्रित करने से उत्तोलन अनुपात कम रहता है। हालांकि पूर्व-सुधार अवधि में उनका घटता प्रभाव अधिक प्रमुख है, उच्च स्वतंत्र बोर्डों द्वारा निगरानी सुधार के बाद की अवधि में ऋण स्तर को बढ़ाने के लिए अनुमानित है। पूंजी संरचना के ढाँचा पर उनका उल्लेखनीय प्रभाव निगम की स्थितिजन्य विशेषताओं के अनुसार भिन्न होता है। गैर-नियंत्रित बड़े मालिक और गैर-ऑडिट सेवाओं का उपयोग भी पूंजी गियरिंग अनुपात पर प्रासंगिक प्रभाव प्रदर्शित करता है। जैसा कि विश्लेषण का दायरा वित्तपोषण की लागत में बदल जाता है, यह निष्कर्ष निकाला जाता है कि सुधार के बाद की अवधि में स्वामित्व और बोर्ड की स्वतंत्रता को नियंत्रित करने से निवेशकों की वापसी की आवश्यक

दर पर नकारात्मक और मजबूत प्रभाव पड़ता है। जबकि उनका लाभकारी प्रभाव कुछ प्रकार की कंपनियों तक सीमित है, अन्य शासन कारक, जिनमें सीईओ द्वंद्व, अतिरिक्त ब्लॉकहोल्डर और उच्च गैर-ऑडिट शुल्क शामिल हैं, पूंजी की लागत को प्रभावित करते हैं जब संगठनात्मक आकस्मिकताओं को संबोधित किया जाता है।

अंत में, अध्ययन लाभांश निर्णयों पर कॉर्पोरेट गवर्नेंस निगरानी तंत्र के प्रभाव का मूल्यांकन करता है। यह देखा गया है कि लिंग-विविध बोर्ड कम और अधिक स्थिर लाभांश देते हैं। उनका सूचित प्रभाव पूर्व-सुधार अवधि में केंद्रित है और आकर्षक विकास संभावनाओं वाली फर्मों के लिए अधिक प्रमुख है। उनकी अनुमानित सलाहकार भूमिका के विपरीत, उनकी निगरानी के कामकाज के पक्ष में अनुभवजन्य साक्ष्य भी प्राप्त किए जाते हैं क्योंकि उन्हें संकेत दिया जाता है कि जब लंबे समय तक सीईओ की नियुक्ति बढ़ती है तो वे अधिक लाभांश वितरित करते हैं। इसी तरह, बड़े आकार के बोर्ड, दोहरे सीईओ, और बड़े शेयरधारकों को नियंत्रित और गैर-नियंत्रित करने की प्रभावशीलता निगम की शर्तों पर निर्भर करने के लिए प्रदर्शित होती है। इसके अलावा, यह भी गौर किया गया है कि स्वतंत्र निदेशकों का उच्च प्रतिशत कम लाभांश स्थिरता से जुड़ा हुआ है।

सभी अनुमानित निष्कर्षों के अनुरूप, यह अध्ययन चिकित्सकों को कुछ महत्वपूर्ण सिफारिशें प्रदान करता है। सबसे पहले, वे सामूहिक रूप से इस बात पर जोर देते हैं कि कॉर्पोरेट प्रशासन निगरानी तंत्र समान रूप से जांचे गए वित्तीय प्रबंधन निर्णयों को प्रभावित नहीं करते हैं। विशिष्ट संगठनात्मक संदर्भों पर उनका प्रभाव कमोबेश सशर्त होता है। इस अवलोकन के परिणामस्वरूप, नीति निर्माताओं को एजेंसी संघर्षों को नियंत्रित करने के लिए उनके एक आकार-फिट दृष्टिकोण पर फिर से विचार करने का सुझाव दिया गया है। बहरहाल, परिणाम मुख्य रूप से भारत में कॉर्पोरेट प्रशासन ढांचे में सुधार के लिए जारी नियामक प्रयास का समर्थन करते हैं क्योंकि यह दिखाया गया है कि सुधार के बाद की अवधि में बेहतर निगरानी उपकरणों की प्रभावकारिता मजबूत होती है और मालिकों को नियंत्रित करने के प्रतिकूल प्रभाव में गिरावट आती है।

इसके अलावा, विभिन्न कंपनियों के प्रबंधन को उचित कॉर्पोरेट गवर्नेंस तंत्र पर भी सलाह दी जाती है कि यह धन प्राप्त करने की लागत को कम करने के लिए फर्म की परिस्थितियों को देखते हुए नियोजित कर सकता है। अंत में, निवेशकों से आग्रह किया जाता है कि वे नियोजित और वास्तविक निवेश व्यय और विभिन्न परियोजनाओं पर रिटर्न पर विचार करके स्पष्ट मेट्रिक्स से परे निरीक्षण करें ताकि यह सुनिश्चित हो सके कि उनकी आपूर्ति की गई पूंजी उत्पादक उपयोग के लिए इष्टतम रूप से आवंटित की गई है।

Table of contents

Certificate	i
Acknowledgments	ii
Abstract.....	vii
Table of contents.....	xiv
List of figures.....	xx
List of tables.....	xxi
List of appendices.....	xxvi
Abbreviations	xxvii
Chapter 1: Introduction	1
1.1 Background.....	1
1.2 Corporate governance in India	5
1.3 Motivation for the study	9
1.4 Research objectives and significance of the study.....	13
1.5 Analytical framework	15
1.5.2 Research methodology	15
1.5.3 Statistical software used	16
1.6 Organization of the thesis	16
1.7 Summary and concluding observations	16
Chapter 2: Literature review	18
2.1 Theories of corporate governance	18
2.2 Corporate governance monitoring mechanisms.....	22
2.2.1 Board of directors	22
2.2.2 Large ownership	27
2.2.3 Auditor independence.....	29
2.3 Corporate governance and investment decisions	31
2.3.1 Corporate governance and investment efficiency.....	31
2.3.1.1 Impact of the board of directors.....	32
2.3.1.2 Impact of large ownership.....	38
2.3.1.3 Impact of auditor independence	40

2.3.2 Corporate governance and cash holdings	40
2.3.2.1 Impact of the board of directors	41
2.3.2.2 Impact of large ownership	44
2.3.2.3 Impact of auditor independence	46
2.4 Corporate governance and capital structure decisions	46
2.4.1 Corporate governance and leverage ratio	46
2.4.1.1 Impact of the board of directors	47
2.4.1.2 Impact of large ownership	52
2.4.1.3 Impact of auditor independence	55
2.4.2 Corporate governance and cost of capital	56
2.4.2.1 Impact of the board of directors	56
2.4.2.2 Impact of large ownership	59
2.4.2.3 Impact of auditor independence	61
2.5 Corporate governance and dividend decisions	61
2.5.1 Corporate governance and dividend payouts	62
2.5.1.1 Impact of board of directors	62
2.5.1.2 Impact of large ownership	66
2.5.1.3 Impact of auditor independence	69
2.6 Summary of the literature review	70
2.7 Research gaps	75
2.8 Summary and concluding observations	79
Chapter 3: Research objectives and methodology	85
3.1 Research questions and research objectives	85
3.1.1 Research questions	85
3.1.2 Research objectives	86
3.2 Scope of the study	86
3.3 Econometric framework	88
3.3.1 Dynamic panel data models	88
3.3.2 Endogeneity issues	89
3.3.3 System generalized method of moments estimation	89
3.3.4 Conditions for the econometric framework	91

3.3.5 Diagnostic tests.....	92
3.4 Data sources and statistical software.....	92
3.5 Variable measurement	93
3.5.1 Corporate governance variables	93
3.5.2 Contextual variables.....	96
3.5.3 Variables for investment decisions	103
3.5.3.1 Corporate governance and investment efficiency	103
3.5.3.2 Corporate governance and cash holdings.....	107
3.5.4 Variables for capital structure decisions.....	109
3.5.4.1 Corporate governance and leverage ratio	109
3.5.4.2 Corporate governance and cost of capital	111
3.5.5 Variables for dividend decisions.....	113
3.6 Summary and concluding observations	115
Chapter 4: Corporate governance and investment efficiency	117
4.1 Theoretical background and hypotheses formulation	118
4.2 Research design	124
4.2.1 Sample description	124
4.2.2 Regression model and variables	124
4.2.3 Research methodology	134
4.3 Main empirical findings and discussion.....	135
4.3.1 Descriptive statistics	135
4.3.2 Multivariate regression analysis.....	139
4.4 Additional analyses.....	144
4.4.1 Over-investment and under-investment	144
4.4.2 Role of CEO tenure	147
4.4.3 Role of firm size	152
4.4.4 Role of firm age.....	154
4.4.5 Role of firm growth opportunities	157
4.4.6 Role of firm financial condition.....	160
4.4.7 Role of industry concentration	163
4.5 Summary and concluding observations	167

Chapter 5: Corporate governance and cash holdings	173
5.1 Theoretical background and hypotheses formulation	174
5.2 Research design	179
5.2.1 Sample description	179
5.2.2 Regression model and variables	179
5.2.3 Research methodology	187
5.3 Main empirical findings and discussion	188
5.3.1 Descriptive statistics	188
5.3.2 Multivariate regression analysis.....	189
5.4 Additional analyses.....	194
5.4.1 Role of CEO tenure	194
5.4.2 Role of firm size	198
5.4.3 Role of firm age.....	201
5.4.4 Role of firm growth opportunities	204
5.4.5 Role of firm financial condition.....	207
5.4.6 Role of industry concentration	210
5.5 Summary and concluding observations	213
Chapter 6: Corporate governance and leverage ratio	219
6.1 Theoretical background and hypotheses formulation	220
6.2 Research design	227
6.2.1 Sample description	227
6.2.2 Regression model and variables	227
6.2.3 Research methodology	235
6.3 Main empirical findings and discussion	236
6.3.1 Descriptive statistics	236
6.3.2 Multivariate regression analysis.....	238
6.4 Additional analyses.....	244
6.4.1 Role of CEO tenure	244
6.4.2 Role of firm size	247
6.4.3 Role of firm age.....	250
6.4.4 Role of firm growth opportunities	253

6.4.5 Role of firm financial condition.....	256
6.4.6 Role of industry concentration	259
6.5 Summary and concluding observations	263
Chapter 7: Corporate governance and cost of capital.....	270
7.1 Theoretical background and hypotheses formulation	271
7.2 Research design	276
7.2.1 Sample description	276
7.2.2 Regression model and variables	276
7.2.3 Research methodology	283
7.3 Main empirical findings and discussion.....	283
7.3.1 Descriptive statistics	283
7.3.2 Multivariate regression analysis.....	285
7.4 Additional analyses.....	290
7.4.1 Role of CEO tenure	290
7.4.2 Role of firm size	294
7.4.3 Role of firm age.....	296
7.4.4 Role of firm growth opportunities	299
7.4.5 Role of firm financial condition.....	302
7.4.6 Role of industry concentration	306
7.5 Summary and concluding observations	309
Chapter 8: Corporate governance and dividend payouts	315
8.1 Theoretical background and hypotheses formulation	316
8.2 Research design	322
8.2.1 Sample description	322
8.2.2 Regression model and variables	322
8.2.3 Research methodology	329
8.3 Main empirical findings and discussion.....	330
8.3.1 Descriptive statistics	330
8.3.2 Multivariate regression analysis.....	332
8.4 Additional analyses.....	337
8.4.1 Role of CEO tenure	337

8.4.2 Role of firm size	341
8.4.3 Role of firm age.....	343
8.4.4 Role of firm growth opportunities	346
8.4.5 Role of firm financial condition.....	350
8.4.6 Role of industry concentration	353
8.5 Corporate governance monitoring mechanisms and dividend stability	356
8.6 Summary and concluding observations	360
Chapter 9: Conclusions and recommendations.....	368
9.1 Key findings from the study	369
9.1.1 Corporate governance and investment decisions	369
9.1.2 Corporate governance and capital structure decisions.....	371
9.1.3 Corporate governance and dividend decisions	373
9.2 Recommendations from the study	374
9.2.1 Recommendations for the investors	374
9.2.2 Recommendations for the company's management.....	375
9.2.3 Recommendations for policymakers.....	377
9.3 Contributions of the study	378
9.4 Limitations and future scope of research.....	381
9.4.1 Limitations of the study	381
9.4.2 Future scope of research	381
9.5 Summary and concluding observations	382
References.....	387
Curriculum Vitae	463

List of figures

Figure 1.1. Illustration of manager-shareholder agency conflict.....	3
Figure 1.2. Illustration of agency conflict between controlling shareholder-minority shareholders.....	4
Figure 1.3. Evolution of corporate governance framework in India	8

List of tables

Table 2.1. Summary of selected studies examining the impact of corporate governance monitoring mechanisms.....	70
Table 3.1. Summary of corporate governance variables used in the study	95
Table 3.2. Summary of contextual variables used in the study.....	102
Table 3.3. Variables used in the expected investment expenditure model	103
Table 3.4. Summary of dependent and control variables used in examining the impact of corporate governance monitoring mechanisms on investment efficiency	105
Table 3.5. Summary of dependent and control variables used in examining the impact of corporate governance monitoring mechanisms on cash holdings level	107
Table 3.6. Summary of dependent and control variables used in examining the impact of corporate governance monitoring mechanisms on the leverage ratio	110
Table 3.7. Summary of dependent and control variables used in examining the impact of corporate governance monitoring mechanisms on the cost of capital	112
Table 3.8. Summary of dependent and control variables used in examining the impact of corporate governance monitoring mechanisms on dividend payouts.....	113
Table 4.1. Summary of variables used in examining the impact of corporate governance monitoring mechanisms on investment efficiency	134
Table 4.2. Summary statistics of investment efficiency, corporate governance monitoring mechanisms, and other firm-level variables	138
Table 4.3. Corporate governance monitoring mechanisms and investment efficiency: Main regression analysis.....	139
Table 4.4. Over-investment and under-investment	146

Table 4.5. Corporate governance monitoring mechanisms and investment efficiency: Role of CEO tenure	150
Table 4.6. Corporate governance monitoring mechanisms and investment efficiency: Role of firm size	153
Table 4.7. Corporate governance monitoring mechanisms and investment efficiency: Role of firm age.....	155
Table 4.8. Corporate governance monitoring mechanisms and investment efficiency: Role of firm growth opportunities.....	158
Table 4.9. Corporate governance monitoring mechanisms and investment efficiency: Role of firm financial condition.....	162
Table 4.10. Corporate governance monitoring mechanisms and investment efficiency: Role of industry concentration	165
Table 4.11. Summary of results from empirical investigation of corporate governance monitoring mechanisms on investment efficiency	169
Table 5.1. Summary of variables used in examining the impact of corporate governance monitoring mechanisms on cash holdings level.....	186
Table 5.2. Summary statistics of cash holdings, corporate governance monitoring mechanisms, and other firm-level variables.....	188
Table 5.3. Corporate governance monitoring mechanisms and cash holdings level: Main regression analysis.....	190
Table 5.4. Corporate governance monitoring mechanisms and cash holdings level: Role of CEO tenure.....	196
Table 5.5. Corporate governance monitoring mechanisms and cash holdings level: Role of firm size.....	198

Table 5.6. Corporate governance monitoring mechanisms and cash holdings level: Role of firm age	203
Table 5.7. Corporate governance monitoring mechanisms and cash holdings level: Role of firm growth opportunities	206
Table 5.8. Corporate governance monitoring mechanisms and cash holdings level: Role of firm financial condition	207
Table 5.9. Corporate governance monitoring mechanisms and cash holdings level: Role of industry concentration.....	212
Table 5.10. Summary of results from empirical investigation of corporate governance monitoring mechanisms on cash holdings level.....	215
Table 6.1. Summary of variables used in examining the impact of corporate governance monitoring mechanisms on the leverage ratio.....	235
Table 6.2. Summary statistics of the leverage ratio, corporate governance monitoring mechanisms, and other firm-level variables	237
Table 6.3. Corporate governance monitoring mechanisms and the leverage ratio: Main regression analysis.....	239
Table 6.4. Corporate governance monitoring mechanisms and the leverage ratio: Role of CEO tenure.....	246
Table 6.5. Corporate governance monitoring mechanisms and the leverage ratio: Role of firm size.....	249
Table 6.6. Corporate governance monitoring mechanisms and the leverage ratio: Role of firm age	252
Table 6.7. Corporate governance monitoring mechanisms and the leverage ratio: Role of firm growth opportunities	255

Table 6.8. Corporate governance monitoring mechanisms and the leverage ratio: Role of firm financial condition	258
Table 6.9. Corporate governance monitoring mechanisms and the leverage ratio: Role of industry concentration.....	261
Table 6.10. Summary of results from empirical investigation of corporate governance monitoring mechanisms on the leverage ratio.....	266
Table 7.1. Summary of variables used in examining the impact of corporate governance monitoring mechanisms on the cost of capital	282
Table 7.2. Summary statistics of the cost of capital, corporate governance monitoring mechanisms, and other firm-level variables.....	284
Table 7.3. Corporate governance monitoring mechanisms and the cost of capital: Main regression analysis.....	287
Table 7.4. Corporate governance monitoring mechanisms and the cost of capital: Role of CEO tenure.....	292
Table 7.5. Corporate governance monitoring mechanisms and the cost of capital: Role of firm size.....	295
Table 7.6. Corporate governance monitoring mechanisms and the cost of capital: Role of firm age	298
Table 7.7. Corporate governance monitoring mechanisms and the cost of capital: Role of firm growth opportunities.....	301
Table 7.8. Corporate governance monitoring mechanisms and the cost of capital: Role of firm financial condition	304
Table 7.9. Corporate governance monitoring mechanisms and the cost of capital: Role of industry concentration.....	308

Table 7.10. Summary of results from empirical investigation of corporate governance monitoring mechanisms on the cost of capital	311
Table 8.1. Summary of variables used in examining the impact of corporate governance monitoring mechanisms on the dividend payouts.....	329
Table 8.2. Summary statistics of the dividend payouts, corporate governance monitoring mechanisms, and other firm-level variables	331
Table 8.3. Corporate governance monitoring mechanisms and dividend payouts: Main regression analysis.....	334
Table 8.4. Corporate governance monitoring mechanisms and dividend payouts: Role of CEO tenure.....	339
Table 8.5. Corporate governance monitoring mechanisms and dividend payouts: Role of firm size.....	341
Table 8.6. Corporate governance monitoring mechanisms and dividend payouts: Role of firm age	345
Table 8.7. Corporate governance monitoring mechanisms and dividend payouts: Role of firm growth opportunities	347
Table 8.8. Corporate governance monitoring mechanisms and dividend payouts: Role of firm financial condition	350
Table 8.9. Corporate governance monitoring mechanisms and dividend payouts: Role of industry concentration.....	354
Table 8.10. Corporate governance monitoring mechanisms and dividend stability.....	358
Table 8.11. Summary of results from empirical investigation of corporate governance monitoring mechanisms on dividend payouts	363
Table 9.1. Summary of key findings.....	384

List of appendices

Appendix 1A. Summary of regulations concerning the examined corporate governance mechanisms in the Indian context	17
Appendix 2A. Summary of selected studies examining the impact of composite corporate governance measures	79
Appendix 3A. Financial reporting quality model of Stubbens (2010)	116
Appendix 4A. Correlation matrix	171
Appendix 5A. Correlation matrix	217
Appendix 6A. Correlation matrix	268
Appendix 7A. Correlation matrix	313
Appendix 8A. Correlation matrix	366

Abbreviations

ASEAN	Association of South East Asian Nations
CEO	Chief Executive Officer
FRQ	Financial reporting quality
HHI	Herfindahl-Hirschman Index
IPO	Initial public offering
LODR	Listing obligations and disclosure requirements
MLS	Multiple large shareholders
NPV	Net present value
NWC	Net working capital
R&D	Research and development
SEBI	Securities and Exchange Board of India
SGA	Selling, general, and administrative
U.K.	United Kingdom
U.S.	United States
VIF	Variance inflation factor