

INDIA'S CORPORATE GOVERNANCE REFORMS AND LISTED CORPORATIONS' CAPITAL STRUCTURES

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PURPOSE
THE study aims to examine the impact of reforms of India's corporate governance standards (via the introduction of and amendments to Clause 49) on the capital structure of its listed corporations.

Design/Methodology/Approach: *Simple fixed effects panel regression analysis is utilized on a sample comprised of a balanced panel data set of 275 companies from BSE 500 index of Mumbai Stock Exchange during the 1999 to 2013 period. The study examines the impact of corporate governance reforms on the gearing ratio of firms in India's listed corporate sector. The impact of stock market development, in terms of increased market capitalization and liquidity after liberalization, and changes in the perceived quality of India's institutions, are accounted for analysis of this data.*

Findings: *It concludes that while the initial introduction of reforms to Clause 49 in 2001 reduced average levels of gearing, that the more recent 2006 increase in the scope of Clause 49 has increased its average level. It also finds, consistent with the literature, that stock market development is associated with lower gearing, while improvements in the quality of development of India's institutions are associated with higher gearing.*

Research Limitations/Implications: *The study is conducted on companies listed on BSE 500 index and captures data only until 2012-13. Thus, although taken across all sectors the sample of firms is drawn only from larger firms, which may limit generalizability of results/conclusions. Recent amendments to Clause 49 suggest that it may be useful to extend the sample period in future research to check for consistency with this study's results. Additionally, the recent SEBI proposal for the adoption of a corporate governance model based on the Anglo-Saxon model may show promise. Therefore, scope exists to undertake complementary studies on the impact of the adoption of UK-based concepts such as 'comply or explain' on the structure of Indian businesses.*

Originality/Value: *Addresses a lack of recent studies of the impact of India's financial liberalization and reforms on financing patterns within its listed corporate sector. Specifically, what has been addressed is the impact of corporate governance reforms, as expressed in Clause 49 of the The Listing Agreement, on corporate financing patterns.*

Key Words: *India, Stock market development, Debt-Equity Ratio (Gearing), Governance Reform, Clause 49, Capital market, Market capitalization, Liquidity, Listing agreement.*

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Introduction

The importance of institutions to emerging market economies, especially those relating to property rights, and the legal and regulatory environments, is broadly accepted. Reflecting its positive association with productivity improvement, market-based governance is often prioritized during periods of financial reform and liberalization. This is based on corporate governance's potential impact on the internal efficiency with which individual firms are able to utilize resources (Tadesse, 2004). Corporate governance addresses problems associated with the separation of management and the provision of finance; i.e., the ownership and control agency problem (Shleifer & Vishny 1997).

For India, *The Listing Agreement* specifies the rules, regulations and requirements with which its listed companies must comply as established by the Securities and Exchange Board of India (SEBI) (or other government agencies). The importance of *The Listing Agreement* is that it is through this, rather than legislative changes, that SEBI has introduced India's main corporate governance reforms, including the introduction of Clause 49. Clause 49 of *The Listing Agreement* provides a set of corporate governance requirements for its listed companies. It is through Clause 49 that issues of director independence, requirements of boards, and disclosures are specifically addressed (see Appendix 1). It is thus, within Clause 49 that financiers will identify corporate governance mechanisms that restrict the capacity of managers to expropriate their funds or waste these on wealth-reducing activities¹.

Both capital structure and corporate governance play important roles in the value generation process and the distribution of its proceeds to shareholders in any company. A change in the debt-equity mix of a company may influence governance where it modifies the structure of managerial control or managerial incentives. For this reason managers may display a preference for a specific debt-equity mix because of its influence on governance decisions. Conversely, changes to governance requirements may alter the preferred debt-equity mix where these alter managerial incentives or constrains managerial opportunism.

The researchers argue that amendments to Clause 49 have the potential to impact corporate governance, the efficiency of use of capital, and debt-equity structures of India's listed public companies. This paper therefore, explores whether observed changes in financing patterns are related to corporate governance reforms in India via changes to Clause 49 of *The Listing Agreement*. In addressing this matter, the study address a lack of recent study of the relationship between India's corporate governance reforms and changes in capital structure within its corporate sector².

The structure of the remainder of the paper is as follows: Section 1 presents data on the capital structure of India's listed public companies, and discusses possible relationships between the data and corporate governance reforms. Section 2 provides a brief review of selected literature on stock market development, governance and corporate financing. Section 3 presents statistical analysis of the impact of India's corporate governance reforms, as evidenced in major changes to Clause 49, on changes to corporate gearing decisions. This analysis is based on panel data regression methods. A conclusion closes the discussion.

Corporate Governance Reforms and Capital Structure of India's Corporate Sector

India is one of the leading emerging market economies along with China. India ranks first in terms of the number of listed companies of any global stock market. The Mumbai Stock Exchange (BSE) has

¹ However, questions remain as to the vigor with which the requirements of Clause 49 have being enforced by the judiciary (Afshripour, 2009; Chakrabarti, Megginson and Yadav, 2008).

² A number of studies that include India are referred to in Section 1. Previous studies specific to India and its corporate financing patterns include: Cobham and Subramaniam (1995); Samuel (1996); Majumdar and Chhibber (1999); ParthaPritam Pal (2001); Green, Murinde and Suppakitjarak (2002); Sarkar and Sarkar (2008) and Goel and McIver (2012). With the exception of Sarkar and Sarkar (2008) and Goel and McIver (2012), each of these papers uses data that does not capture the impact of reforms such as the 1999 announcement and early 2000s enactment and phase in of Clause 49 of *The Listing Agreement*. Sarkar and Sarkar (2008) discuss corporate governance in India, but themain focus is on debt. The primary purpose of Goel and McIver (2012) is to provide stylized facts on the changes in financing patterns within the Indian corporate sector following commencement of financial reform and liberalization in the early 1990s through to the late 2000s.

5,542 listed companies, twice the number of companies listed on NASDAQ in 2014. In terms of size, the BSE ranks fourteenth among global equity markets (World Stock Exchanges, 2014).

Figure 1 illustrates the trends in the alternative sources of financing raised by the listed corporate sector over the 1998-99 to 2012-13 period. Table 1 provides data on the proportion of each form of

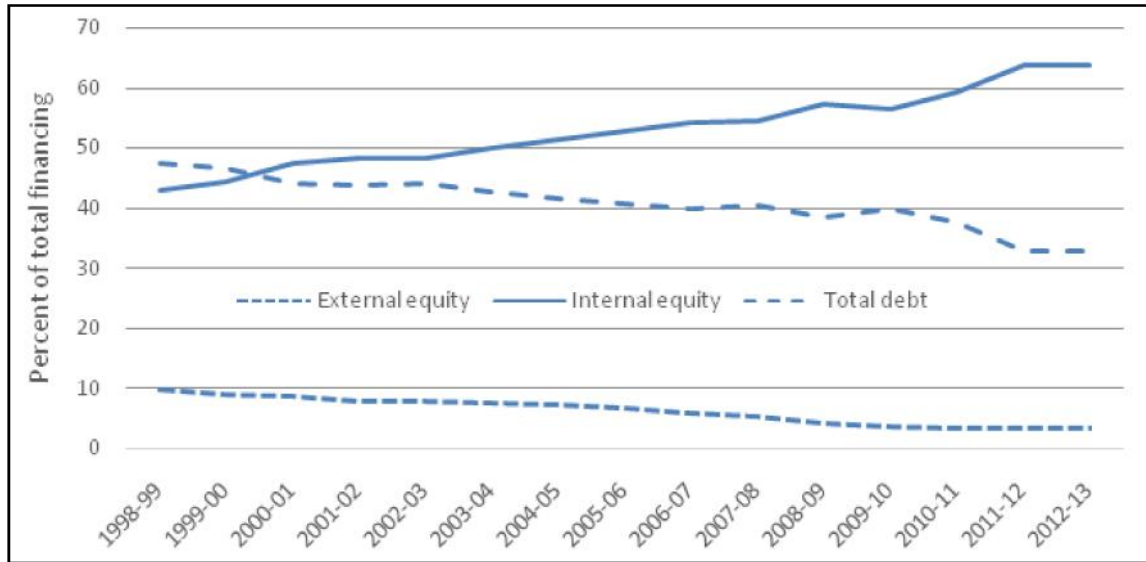


Figure 1: Average Funds Raised by Source.

Source: Derived from CMIE PROWESS Database, and Authors' Calculations.

Table 1: Capital Structure of Indian Corporate Sector (% Total Finance)

Years	(Shares)	(Reserves and Surpluses)	(Secured and unsecured loans)	Total Equity ratio	Debt/Equity
1998-99	9.66	42.97	47.37	52.63	90.01
1999-00	8.93	44.44	46.63	53.37	87.37
2000-01	8.62	47.39	43.98	56.01	78.52
2001-02	7.79	48.4	43.81	56.19	77.97
2002-03	7.86	48.19	43.94	56.05	78.39
2003-04	7.51	49.98	42.50	57.49	73.93
2004-05	7.13	51.23	41.63	58.36	71.33
2005-06	6.58	52.69	40.73	59.27	68.72
2006-07	5.90	54.26	39.84	60.16	66.22
2007-08	5.21	54.37	40.42	59.58	67.84
2008-09	4.36	57.14	38.49	61.50	62.59
2009-10	3.75	56.28	39.97	60.03	66.58
2010-11	3.41	59.05	37.54	62.46	60.10
2011-12	3.47	63.66	32.87	67.13	48.96
2012-13	3.42	64.20	32.29	67.62	47.75

Source: Derived from CMIE PROWESS database, and authors' calculations³.

³ Total debts include current liabilities and provisions as well as debt raised from the capital market.

financing utilized by these corporations. Consistent with pecking-order theory (Myers, 1984), Indian companies appear to prioritize their sources of financing (from internal finance to the issue of new equity) according to the law of least effort, or of least resistance, preferring to raise new equity as a financing means “of last resort”. Hence, internal funds are the primary source of new financing, debt follows, and finally new equity is issued.

While declining in importance in India, loans (debt), which includes borrowings from banks and financial institutions, debentures and other forms of debt, have remained a major source of finance for the corporate sector over the 1998-99 to 2012-2013 period (Table 1). Additionally, total external finance (including the share market, banks and financial institutions) still contributed just over 36 per cent of the total finance requirements of the average listed firm in India as of 2012. Thus, the equity market and debt market are still playing complementary roles in the provision of financial capital.

India’s process of financial liberalization and introduction of corporate governance initiatives commenced in 1991 (Goel & McIver, 2012). This was associated with a clear move by India to attract foreign investment to its corporate market. The success of these initiatives is reflected in the strengthening of global capital flows to the Indian market and increases in the number of Foreign Institutional Investors (FIIs), especially since 2001 (see Appendix 2).

A relatively high reliance on external finance (share capital plus debt) was observed by firms in India at the start of the liberalization process. Increased equity market development and a reduction of government involvement in the banking system during 1990s lead to an initial increase in the use of debt. While government control of the debt markets in India had resulted in an observed negative relationship between debt and firm performance prior to the advent of liberalization (Majumdar & Chhibber, 1999), debt’s disciplinary role in preventing over investment by India’s listed public firms improved as institutions became more market oriented (Sarkar & Sarker, 2008).

However, while debt has become a more effective tool in governance, it is clear from Figure 1 and Table 1 that there has been a shift away from debt-related and external equity financing towards internal equity as a source of finance. The share of internal finance (i.e., retained earnings and reserves) has increased to replace a component of all forms of external finance. Thus, there is less dependence on the capital markets, banks and financial institutions. This supports the argument that liberalization, including stock market development, has had a positive effect on firm performance – a managerial discipline through the market for corporate control argument.

The 1999 announcement of the introduction of Clause 49 of the *Listing Agreement* had a positive impact on investors’ perceptions of large firms, causing an increase in value of these firms (Black & Khanna, 2007). The elements of Clause 49 were phased in over a number of years during the early 2000s, moving from large to smaller companies, to cover thousands of India’s listed public companies. The clause provides a framework of rules, relationships, systems and processes within which authority is exercised and controlled within corporations and those in control are held to account. The 2001 introduction of Clause 49 dealt with issues of director independence, requirements of boards, and addressed disclosure requirements (Appendix 1). The 2006 amendments to Clause 49 added requirements with respect to director and audit committee qualifications, meetings of boards, and compliance with accounting standards (Appendix 1).

What, surprisingly, is not clear from the data presented in Table 1, which is based on averages, is the significance (or otherwise) of the impact of the introduction of Clause 49 on the capital structure of India’s firms. That there is no great leap in internal equity’s average contribution coinciding with the announcement and/or introduction of Clause 49 over several stages, may reflect poor perceived shortcomings in the extent to which governance requirements are being enforced by the judiciary as per Afsharipour (2009) and Chakrabarti, Megginson, & Yadav (2008). Alternatively, it may simply reflect an aggregation problem, suggesting that a more detailed statistical analysis is required to address this matter. This is the topic matter of Section 3.

Literature and Hypotheses

The role of the stock market in the financial system and in the process of economic development is well recognized in the literature. Demirgrüç-Kunt (1992) suggests leverage initially increases in with stock market development. At early stages of development, improvements in information quality, monitoring, and corporate control and governance may be large enough to induce creditors to lend more. This is consistent with the changes in the financing patterns of India's firms at the start of the liberalization process. Increased equity market development and a reduction of government involvement in the banking system during 1990s led to an initial increase in the use of debt.

However, in later studies Demirgrüç-Kunt & Maksimovic (1995, 1996) suggest that while this is the initial effect, further development of the equity market and its operation leads to a decline in gearing. Changes to the functioning of the stock market and governance may have a variety of possible effects on corporate debt-equity ratios over time. One possible outcome is the substitution of outside equity, through public offerings, for debt. In this case, the debt-equity ratios of firms, previously able to issue only debt, would decrease. Or, a closely held firm might open itself to public ownership by issuing shares and substituting outside equity for inside equity, which would not affect the debt-equity ratio. A third possibility is that the firm's owners' new ability to diversify risks would make expansion more attractive – such an expansion could be financed either through additional debt or equity. A fourth possibility is that, by facilitating the flow of information and improving corporate governance, well-functioning stock markets may lower the cost of raising capital. In this case, external finance (both debt and equity) would become less costly, although it is not clear which would increase more.

An alternative explanation of changes in financing patterns is based on the impact that the introduction of stronger corporate governance standards may have on both governance and the internal efficiency of firms (Tadesse, 2004). Stock markets have particular advantages in ensuring improvements in the productivity of investment by acting to strengthen governance. Governance in capital markets relies on both the information production and monitoring provided by these markets. A lack of transparency and disclosure in corporate reporting will reduce the effectiveness of corporate governance mechanisms in aligning the incentives of managers with those of enterprise owners. Poor disclosure practices will also allow recognition of problems in financial performance to be deferred or hidden, and leave unmet investors' requirements for greater information disclosure (Ševia, 2005). Thus, strict reporting requirements may help to reduce information asymmetries between investors and managers of listed firms, allowing the market to better enforce actions by managers that are in investors' interests. Improvements in governance standards will potentially accelerate the availability and use of internal equity financing, and reinforce the reduction in debt-to-equity funding ratios expected during the market development process.

The introduction and later amendment of Clause 49 had the potential to have a major impact on corporate governance, and hence the efficiency of use of capital and the operation of India's listed public companies. This is because Clause 49 specifically addresses issues of director independence, requirements of boards, and disclosures (see Appendix 1). The researchers suggest that the introduction of stronger corporate governance standards (especially Clause 49 of the *Listing Agreement*) at the end of the 1990s/early in the 2000s helped in improving governance standards and the internal efficiency of India's listed firms. Thus, it accelerated increased use of internal equity financing, reducing Indian firms' reliance on external financing, and reinforced the reduction in debt-to-equity funding ratios expected during the market development process (Table 1).

However, while the potential efficiency benefits available from increasing market-based governance and stock market development are likely to impact on the capital structure of the corporate sector, the effect is poorly understood (Prasad, Green, & Murinde, 2001). The impact of improvements in institutional quality and governance standards on gearing choices cannot be determined *a priori*. This reflects that there may be pressures both for and against adjustments to the share of financing sourced through debt and external equity. Additionally, doubts have been raised about the shortcomings in the extent to

which governance requirements are being enforced by the judiciary in India, reinforcing the argument that the impact is potentially ambiguous.

Based on the above, the following hypotheses are being proposed on the impact of institutional development on the financing patterns of large listed companies in India:

H₁: The 2001 requirement that issues of director independence, requirements of boards, and disclosures addressed with the introduction of Clause 49 did not alter gearing decisions.

H₂: The 2006 requirement that issues of director and audit committee qualifications, meeting requirements of boards, and compliance with accounting standards addressed under amendments to Clause 49 did not alter gearing decisions.

H₃: Improvements to institutional quality will increase gearing.

H₄: Greater stock market development will decrease gearing.

H₅: Greater stock market liquidity will not alter gearing decisions.

H₁ and H₂ are established in the format of null hypotheses, due to the inability to determine the sign of the impact on gearing should the changes associated with the introduction and amendment of Clause 49 impact gearing decisions. H₃ is based on improvements to institutional quality better ensuring creditors' claims and their enforcement. H₄ suggests that greater stock market development, by facilitating and potential lowering the cost of the use of the share market as a vehicle for raising capital, will encourage greater equity financing. Finally H₅ is also established in the form of a null hypothesis. This acknowledges, for example, that where increased liquidity is a result of reductions in transactions costs, this may add to the ability of the market to discipline managers. However, it is uncertain whether this will encourage the company to take on a higher or lower level of gearing.

The Statistical Impact of Changes to Clause 49 on India's Listed Public Companies

Data and Sample

As noted above, annual financial reporting data from company financial reports for the years 1999 to 2013 provide the major data sources for the sample. This data was sourced from the PROWESS data base, produced by the CMIE (the Centre for Monitoring the Indian Economy). Researchers have also utilized data on market development (market capitalization as a percentage of GDP), liquidity (value of shares traded as a percentage of GDP), and institutional quality. The first two measures are derived from the Handbook of Statistics on Indian Economy (SEBI, 2014) (Appendix 2). The latter index for India is sourced from the PRS Group's, International Country Risk Guide, Composite Risk Ratings, Researchers' database.

Dependent Variable

The dependent variable is D(GEARING), the change in the ratio of debt to equity, where gearing is defined in terms of the financial accounting data as follows:

$$\text{Gearing}_{it} = \frac{(\text{Secured loans}_{it} + \text{Unsecured loans}_{it})}{(\text{Retained earnings and reserves}_{it} + \text{Share capital}_{it})}$$

Independent Variables

The following independent variables have been used in the regression. MKTCAP, measured as market capitalization as a percentage of GDP, is used to capture the level of development of the stock market. TRADE, the value of shares traded as a percentage of GDP, provides a measure of

liquidity. INSQU, institutional quality, the PRS Group’s Composite Risk Rating for India, provides an overall indicator of the strength of the legal and regulatory environments in India. GEARING(-1), the lagged gearing ratio, is used to account for a high level of serial correlation between successive values of the leverage ratio. GOV1 which takes a value of 1 from 2001, accounts for the initial implementation of Clause 49 in 2001. GOV2, which takes a value of 1 for all years from 2006, is used to account for the implementation of the revised and more broadly applied Clause 49 from 2006.

Table 2 presents correlations between independent variables. While most correlations are relatively low, that between GOV2 and MKTCAP is large (at just over 0.8). However, this reflects the underlying characteristics of the data (i.e., a general increase in MKTCAP over time, and that GOV2 takes values of 0 until 2005, and 1 from 2006). We would, therefore, tentatively conclude that multicollinearity should not significantly impact the results of the regression.

Table 2: Correlations between Independent Variables

	GEARING	GOV1	GOV2	MKTCAP	TRADE	INSQU
GEARING	1.0000	-0.0169	-0.0294	-0.0328	0.0148	-0.0234
GOV1	-0.0169	1.0000	0.3948	0.2723	-0.1798	0.6922
GOV2	-0.0294	0.3948	1.0000	0.8822	-0.0649	0.4348
MKTCAP	-0.0328	0.2723	0.8822	1.0000	0.0044	0.4342
TRADE	0.0148	-0.1798	-0.0649	0.0044	1.0000	-0.3715
INSQU	-0.0234	0.6922	0.4348	0.4342	-0.3715	1.0000

Regression Model

The fixed-effects panel data regression model is of the following form:

$$U(GEARING_{it}) = r_i + s_1 GEARING_{it}(-1) + s_2 GOV1 + s_3 GOV2 + s_4 INSQU_t + s_5 MKTCAP_t + s_6 TRADE + v_{it}$$

The use of the fixed-effects framework is premised on the recognition that each company is likely to have its own target/preferred gearing ratio.

Results

The results of the regression analysis are presented as Table 2. With the exception of the constant and the index of institutional quality, all variables are significant at the five (GOV1) or one per cent levels (GEARING(-1), MKTCAP, TRADE, and GOV2), with institutional quality (INSQU) being significant only at the ten per cent level.

The variables GEARING(-1), INSQU, and MKTCAP all have the expected sign. For example, although not associated with a specified hypothesis, those companies with high gearing in the previous time period have a tendency to reduce their gearing in the next. This would be expected based on norms for the company/industry. Improvements to institutional quality do allow companies to take on additional debt load relative to equity, supporting H₃. Greater stock market development does tend to reduce gearing, supporting H₄. Thus, accepting these hypotheses. With respect to H₅, we reject the null hypothesis instead accepting that market liquidity does indeed impact gearing decisions. This could, for example, reflect the greater ease with which ownership and control can be transferred in liquid markets increasing the potential for market discipline of underperforming management.

In the case of the introduction and later amendment of Clause 49 (GOV1 and GOV2) the null is rejected in favor of the alternative; that is, there is statistical support for the claim that both the introduction of, and later amendment to, Clause 49 impacted on Indian firms' gearing decisions. The results are thus in contrast to those Misra and Vishnani (2012), who find no impact of the introduction and amendment of Clause 49 based on an analysis of company betas.

Table 2: Fixed Effects Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.8752	1.0074	-0.8688	0.3850
GEARING(-1)	-0.3143	0.0497	-6.3252	0.0000
GOV1	-0.1320	0.0565	-2.3363	0.0195
GOV2	0.2942	0.0612	4.8089	0.0000
INSQU	0.0277	0.0150	1.8475	0.0648
MKTCAP	-0.0085	0.0010	-8.7276	0.0000
TRADE	0.0108	0.0025	4.0301	0.0001
Statistics				
R-squared	0.2065	Mean dependent var.	-0.0577	
Adjusted R-squared	0.1329	S.D. dependent var.	1.0771	
S.E. of regression	1.0030	Akaike info. criterion	2.9251	
Log likelihood	-4545.4610	Schwarz criterion	3.4447	
F-statistic	2.8055	Hannan-Quinn criterion	3.1111	
Prob. (F-statistic)	0.0000	Durbin-Watson statistic	1.8842	

In terms of the sign on each of the coefficients for the dummy variables GOV1 and GOV2, further comment is warranted. The fall in gearing suggested by the coefficient for GOV1, is consistent with the emphasis in Clause 49 as initially introduced. Here the focus was on improving governance by reducing the asymmetry of information between the board and shareholders, potentially reducing agency problems. That these changes were associated with improved profitability of firms allowed for increased generation of internal equity and reductions in gearing. In the case of the coefficient on GOV2, which suggests an increase in gearing, the greater responsibility placed on the audit committee and the requirement for increased compliance with accounting standards would, by improving the quality of reporting, potentially increase lenders' willingness to provide funding.

Conclusions

This paper has presented a very brief overview of changes to the institutions and rules associated with capital market governance in India, a brief discussion of the development and growth in India's equity markets, and the evolution in the average financing pattern of India's listed public companies over the 1998-99 to 2012-13 period (Figure 1 and Table 1). Changes in the pattern of financing in these companies were discussed in light of expectations for changes based on the process of liberalization, reform of India's financial markets, and improvements to governance standards suggested in the introduction amendment of Clause 49 of the *Listing Agreement*.

Evidence of significant shifts in the pattern of corporate finance sources used by India's listed companies throughout the recent phases of economic liberalisation and market reform is present. For example, a

result of liberalisation and economic growth has increased profitability for the Indian corporate sector. This has led to a decline in the relative importance of external sources of finance, debt and new share equity, as forms of finance for the Indian corporate sector. We argue that these patterns may reflect improvements in governance, associated with an increasing market orientation of the Indian economy and development of the stock market, including improvements made to governance in the 2000s (i.e., via Clause 49).

To explore the impact of the introduction and amendments to Clause 49 of the listing rules, we undertook a simple panel data regression analysis. Our results suggest that Clause 49 had an impact on financing (gearing) decisions, both with its initial introduction and through its amendment. It is suggested that each of the statistically significant coefficients identified for our Clause 49 dummy variables is consistent with the emphasis in each of the introduction of and amendments to Clause 49. Thus, the negative coefficient on GOV1 is consistent with a reduction in the asymmetry of information between the board and shareholders. The positive coefficient on GOV2 has consistent improvements in the quality of reporting and its impact on lenders' willingness to provide funding to the large listed companies in our sample.

There are, however, alternative possible explanations for the movement of Indian firms towards more internal equity-oriented financing patterns and to the use of lower gearing. While our focus has been largely on market development and associated shareholder-focused improvements to governance and the impact of these developments, there have been continued changes to banking, competition regulation, trade and other areas. These matters suggest several possible avenues for future research.

Finally, and consistent with our observations on the impact of changes to corporate governance on firm decision making, we note that recent SEBI proposals for the adoption of a corporate governance model based on the Anglo-Saxon model may show promise. However, we suggest the adoption of certain UK-based concepts such as 'comply or explain' be adopted cautiously given the radical nature of some proposals and significant effects they may have on the structure of Indian businesses.

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Appendix 1: Clause 49 of the *Listing Agreement*

Characteristic	Clause 49
Director Independence	<ul style="list-style-type: none"> ● Requirement – 50% independent directors if Chairman is executive director or 33% if Chairman is a nonexecutive. ● Definition – no material pecuniary relationship with company, not related to Board or one level below Board and no prior relationship with the Company for the last 3 years. ● Nominee Directors of Financial Institutions – considered independent.
Board Requirements & Limitations	<ul style="list-style-type: none"> ● Meet 4 times a year (maximum 3 months between meetings). ● Limits on number of committees a director can be on (10), but only 5 for which director can be Chair of committee. ● Code of Conduct (Ethics) required.
Audit Committee Composition	<ul style="list-style-type: none"> ● At least 3 directors (two-thirds must be independent). ● All financially literate. ● At least one having accounting or financial management experience.
Audit Committee Role & Powers	<ul style="list-style-type: none"> ● Minimum 4 meetings/year (gap between meetings not exceed 4 months). ● Broad role – review statutory and internal auditors as well as internal audit function, obtain outside legal or other professional advise, and review whistleblower program if one exists amongst other things.
Disclosures	<ul style="list-style-type: none"> ● Related party transactions. ● Accounting treatments and departures. ● Risk management ● Annual report includes discussion of internal controls adequacy, significant trends, risks, and opportunities. ● Proceeds from offerings. ● Compensation for directors (including nonexecutives and obtain shareholders’ approval). ● Details of compliance history for last 3 years. ● Corporate governance reports (and disclose adoption, if any, of mandatory and non-mandatory requirements).
Certifications	<ul style="list-style-type: none"> ● CEO & CFO: <ul style="list-style-type: none"> ■ financial statements ■ effectiveness of internal controls ■ inform audit committee of any significant changes in the above. ● Auditor or Company Secretary: <ul style="list-style-type: none"> ■ Compliance with corporate governance.
Subsidiary Companies	<ul style="list-style-type: none"> ● At least one Independent director of Holding Company should sit as a director on Board of material non-listed Indian subsidiary. ● Significant transactions report to Holding Company Board (along with subsidiary board’s minutes).
Other	<p>Recommendations:</p> <ul style="list-style-type: none"> ● Whistleblower policy is optional. ● Independent directors loses status as “independent” if served 9 years at company. ● Training board members. ● Evaluate nonexecutive board performance.

Source: Balasubramanian, Black & Khanna, 2008, Appendix A: Summary of Clause 49, 43.

Appendix 2: Stock Market Development Indicators in India

Year	Listed companies	BSE Sensex	Foreign Institutional Investors
1999	5,842	4,659	450
2000	5,853	4,270	506
2001	5,795	3,332	527
2002	5,650	3,206	490
2003	5,644	4,492	502
2004	4,730	5,741	540
2005	4,763	8,280	685
2006	4,796	12,277	882
2007	4,887	16,569	997
2008	4,921	12,366	1,319
2009	4,955	15,585	1,635
2010	4,987	18,605	1,713
2011	5,112	17,423	1,765
2012	5,191	18,202	1,757
2013	5,294	20,120	1,710
2014	5,541	25,868	1,739

Source: SEBI, Handbook of Statistics on Indian Economy, various issues.