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Relationship Between Corporate Governance, Management Ownership And Capital Structure: Evidence From Indian Companies

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Abstract

This study investigates the intricate interplay among corporate governance, management ownership, and capital structure in the context of Indian companies. It reveals that effective corporate governance is pivotal in enhancing financial performance and ethical standards. Management ownership aligns management interests with those of shareholders, influencing strategic decision-making. Furthermore, capital structure decisions are not solely financially driven but are also influenced by governance norms. These findings emphasize the significance of balancing ownership concentration and integrating governance principles into financial strategies. This research underscores the global relevance of corporate governance and its profound impact on financial outcomes, providing valuable insights for businesses worldwide.

Keywords:

Corporate governance, Management.

1. Introduction

1.1 Background

This study is based on the intersection of three major critical components which are corporate governance, management ownership, and capital structure. There are various levels of implication and terms of financial as well as operational performance of the organization in Indian organizations. Initial in terms of corporate governance which shows the system of rules as well as practices by which organizations are directed and controlled through the fundamentals in terms of fostering the level of transparency, accountability, and ethical behaviour within the organizations (Ali *et al.* 2022). An effective corporate governance health ensures that organizations are managed according to the interest of the stakeholders including the shareholders as well as the regulatory bodies.

The major quality of corporate governance not only shows the matter of regulatory compliance but also shows the determinant of the exchange to which the managers and the executives within the organization hold equity in their own organization (Yameen *et al*. 2019). It is highly considered as a key level of mechanism in terms of aligning the management interest on those shareholders, as when the management has significant ownership they are more likely to Paradise different strategies which helps in enhancing the shareholder's value and less inclined towards the engagement of behaviour which can compromise the company’s financial health (Seth and Mahenthiran. 2019).

1.2 Aim and Objectives

The major aim of this study is the examination of the relationship between “corporate governance, management ownership, and capital structure” in Indian companies.

Objectives:

- To analyze corporate governance practices in Indian companies.
- To investigate the levels of management ownership in these companies.
- To examine the impact of management ownership and corporate governance on capital structure of Indian firms.

1.3 Research Question

The study highly seeks to address the research question: "What is the relationship between corporate governance, management ownership, and capital structure in Indian companies?"

The PICO framework has been included in the systematic review and analyses of the research question.

Population (P)	Intervention (I)	Control (C)	Outcome (O)
Indian companies	Capital structure depending on corporate governance & management ownership.	Positive impact of corporate governance & management ownership on company operations	Stable capital structure

Table 1: PICO framework

(Source: Self-developed)

1.4 Research Hypothesis

The research hypotheses are:

H0: There is a significant relationship between corporate governance, management ownership, and capital structure in Indian companies.

H1: There is no significant relationship between corporate governance, management ownership, and capital structure in Indian companies.

Chapter 2: Literature Review

2.1 Corporate Governance

Corporate governance refers to the set of rules, processes and practices that helps in directing and managing a company's performance. In terms of corporate governance in India which is highly dynamic as well as have an evolving landscape that is governed by a combination of different legal frameworks, regulatory authorities as well as market influences. This results in playing a significant role in terms of shaping the business environment along with influencing the decision-making process in the Indian organizations (Almashhadani and Almashhadani, 2022). Initially, the Ministry of Corporation Affairs (MCA) and the Security and Exchange Board of India (SEBI) are the two major entities who are responsible for overseeing as well as regulating the corporate governance practices in India.

According to the Companies Act 2013, the major base of Indian corporate governance helps in providing a comprehensive level of legal Framework for the governance of organisations. This outlines the provision which is related to the roles and responsibility of directors, audit committees, vigil mechanism and disclosure requirements. All these regulations help in promoting the level of transparency, accountability and ethical behaviour within Indian organizations (Rao *et al*. 2019). SEBI, which is India's capital market regulator play the significant role in terms of promoting good corporate governance for the listed organisations. Here, one of the prominent contributions is clause 49 that directly aims towards enhancing the corporate governance practices among the listed entities which makes it mandatory to appoint an independent director and requires organization to adhere to the stringent disclosure norms (Mubeen *et al*. 2022).

2.2 Management ownership

Management ownership is a significant component of corporate governance and business strategies that place a significant role in the corporate landscape of India. Management ownership refers to the amount of shares owned by management and stakeholders actively participating in corporate decisions (Yameen *et al*. 2019). This even includes the directors and commissioners. In context to Indian organisations, the management ownership refers to the level of exchange to which the top level executive and the managers of the organisation hold high level of equity stakes in the own organization (Chatterjee and Nag, 2023). It is highly significant aspect for the corporate governance in terms of reflecting the alignment between the management and the shareholders interest. The management's ownership in India has different forms in which the family owned businesses have highly significant features (Ellili, 2022). In this type of cases the family members serve as the top level executive which difficulty have a substantial ownership take which further results in intertwining the interests of leadership according to the financial performance of the organization.

2.3 Capital structure

Capital structure serves as a fundamental financial concept that holds the significant role in terms of shaping financial stability, risk profile and overall performance of Indian organisations (Ellili, 2022). This refers to the competition of different organisation's finances which in compasses the mixture of debt and equity that is used in order to support its operation, investments and growth initiative. In India, economic conditions, government policies and industry specific dynamics along with the Global market trends influences the capital structure within organizations (Gajdosikova and Valaskova, 2022). These organizations also face various choices in terms of utilising debt, equity and the combination of both funds in the activities.

2.4 Relationship between corporate governance, management ownership and capital structure

The main mechanism of governance within an organization influences funding decisions through board independence, board size, executive compensation, manager duality and executive entrenchment. Studies have suggested that companies with large board tend to have a low debt (Seth and Mahenthiran. 2019). Large board tend to exert high pressure on the managers to increase their performance and create a positive relation between board size and leverage. In case the mangers have a significant amount of ownership in a company they are more interested in aligning with company growth objectives. This alignment helps in creating a strong stakeholder value with efficient capital structure decisions. Excessive leverage helps in increasing financial risks threatening equity stake (Saha and Kabra. 2019). Managers having sufficient amount of stake might have high risk-resistance and high proportion of equity. Such managers tend to retain more profits for the company instead of paying the dividends. This helps in creating a stable capital structure within an organization. Alignment of interest of management with stakeholders takes place when there is strong corporate governance and transparent managerial operations (Kumar *et al.* 2022). Business transparency in governance within firms helps in creating a strong investor relation. This helps investors in understanding the financial position of a company and reducing risks.

2.5 Theoretical framework

In the study the relationship between the corporate governance, management ownership and capital structure within the Indian organization are highly characterized by the theoretical framework of agency theory (Habibniya, 2022). This theory is widely accepted in terms of economic theory which helps in exploding different dynamics between the shareholders and the managers along with different potential conflicts of interest which results in impacting the corporate decision making. In terms of Indian corporate governance this agency theory helps in providing a lens through which it is easy to understand the significant balance between ownership and control.

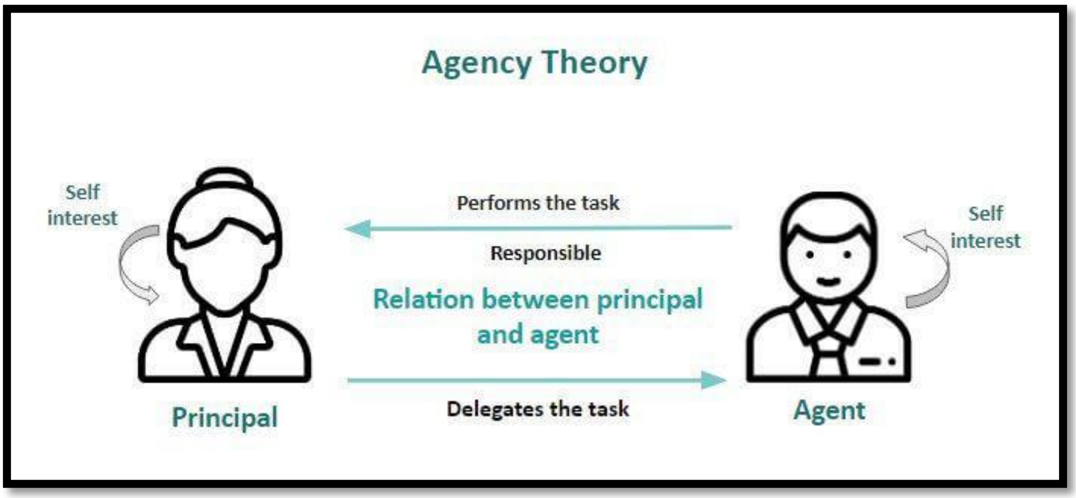

Figure 1: Agency theory

(Source: Kumar *et al.* 2022)

The management ownership shows the representation of the ownership by the agents which is expected to align their interest in closer manner with those shareholders and the principals (Kumar *et al.* 2022). This alignment highly believes in leading a better corporate governance As a manager with incentives for making decision that enhance the value of shareholders.

2.6 Literature Gap

The earlier literatures have failed to study the impact of managerial ownership and corporate governance on capital structure within Indian organizations. Earlier studies have researched the relation between these variables on a general context and also based on other countries. However, a study on Indian firms has not been done yet to have an understanding of capital structure, ownership and governance. So this study has aimed at focusing on these three variables within Indian firms.

3. Methods

3.1 Research Design

The study used secondary data sources in order to analyze the significant relationship between capital structure, corporate governance and management in Indian organizations (Mubeen *et al.* 2022). Descriptive research design enabled utilizing various existing data set that allows the examination of historical trends, patterns and association within the Indian corporate governance. Secondary data collection has helped in accessing free existing information and providing a meaningful conclusion using the available data.

3.2 Inclusion and exclusion criteria

Eligibility criteria	Inclusion criteria	Exclusion criteria
Journal type	● Peer reviewed ● Full-text articles	● Not peer-reviewed ● Published in the database up to the abstract and introduction and other parts are not present.
Year of publishing	Last 5 years	Before 2018
Selected language	English	Other than English
Data source	Google Scholar, Government websites of India or other sites that highlight Indian regulation, ProQuest.	Unauthentic sources in the databases.
Selected topic	Data regarding the regulatory framework for corporate governance in India.	Non-specific terms and notions
Country	India	Other countries than India

Table 2: Inclusion and exclusion criteria

(Source: Self-developed)

3.3 Searching strategy

***Boolean operators*:**

The search strategy for the articles in this systematic review incorporates "Boolean operators" like AND, OR, NOT, WITH, and AND NOT to refine and specify the search queries further.

Key Words:

Regulatory framework, Corporate governance, managerial ownership, managerial ownership in Indian firms, capital structure in Indian companies, corporate governance in India, regulatory framework within organization structure, Indian organization governance.

Database:

Here, the primary source of data for this study involves a range of secondary sources, in which including "peer-reviewed academic journals, government publications, financial reports, and industry-specific" database Google scholar (Tiep *et al*. 2022). With the help of using these reputable and well-established data sources helps in ensuring the quality and reliability of the information utilized.

3.4 Data collection and quality appraisal

In terms of data extraction which follows the systematic level of approach in which articles and reports are identified, screened as well as assessed for relevance as well as quality (Mundi and Kaur, 2022). Here the critical appraisal skill program tool has been utilized in order to assess the quality and reliability of the selected studies to ensure that only high-quality of data has been contributed in the search.

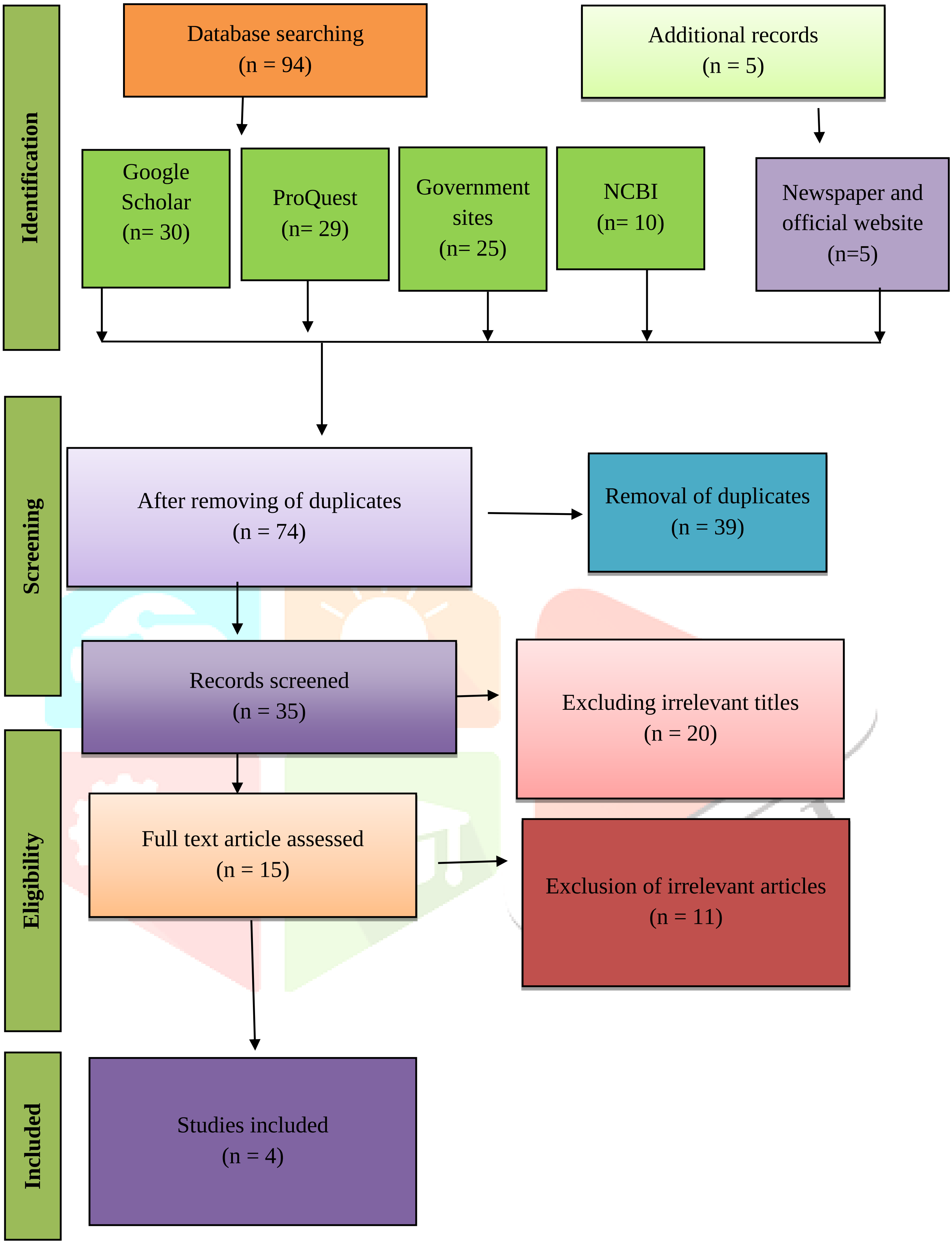

Figure 2: PRISMA Framework

(Source: Self-evaluated)

3.5 Data analysis

Data analysis adopts a thematic analysis approach, enabling the identification of patterns, relationships, and insights within the secondary data (Mundi*et al.* 2022). By structuring the analysis thematically, the study can uncover the interplay between corporate governance, management ownership, and capital structure in Indian companies, offering valuable insights into this complex relationship.

3.6 Ethical consideration

The utilization of secondary data ensures that ethical considerations, such as informed consent and data privacy, are already addressed within the primary data sources (Naeem *et al.* 2022). This study adheres to ethical research practices, respecting the confidentiality and integrity of the data used.

4. Findings and analysis

Article Title	**Country**	**Methodology**	**Findings**
Seth and Mahenthiran. 2019	India	This paper has involved 115 Indian listed organizations that existed over a period of 2009 to 2012 (Seth and Mahenthiran. 2019). Multivariate statistics have been used to do the analysis.	It shows that CSR disclosures as well as dividends act complementarily to mange stakeholder relations. These complementary relations are supported by the investors thus creating a stable capital structure (Seth and Mahenthiran. 2019).

Yameen *et al*. 2019	India	This research has been conducted on 39 hotels listed on Bombay Stock Exchange for a period of 2013/2014 to 2015/2016. (Yameen *et al*. 2019). A study on Indian tourism sector has been done in this research.	Findings suggest that size of board of directors and of audit committee have a negative impact on performance of Indian hotels. However, these sizes and foreign ownership positively affect company performance (Yameen *et al*. 2019).
Saha and Kabra. 2019	India	This paper uses panel data regression method to analyse the data and portray three corporate governance attributes- board gender diversity, board independence and risk management committee (Saha and Kabra. 2019). This study includes 100 non-financial and non-utility Indian companies.	The findings suggest that board independence helps in reducing agency costs and protect investor interests. (Saha and Kabra. 2019). The other two factors have a limited role.

Rao *et al*. 2019	India	This study has involved 174 non-financial firms of India and has not disclosed their names due to ethical consideration (Rao *et al*. 2019). Generalised method of moments (GMM) is used to analyse the data of these Indian SEMs.	The study provides insights about the impact of firm's tangibility, age, size, profitability, liquidity, growth cash-flow and return on equity on firm leverage (Rao *et al*. 2019).

Table 2: Data extraction table

Source: (Self-developed)

In the above-given table, it shows the collection of various research articles which has been selected in this study in order to explore the complex level of relationship between "corporate governance, capital structure, and environmental, social, and government (ESG) factors" (Shaik *et al*. 2022). All these studies help in employing various methodologies in order to investigate how this component results in influencing "financial performance, sustainability and product innovation" in a diversified context. The findings of the study highlight the relevance of corporate governance in terms of shaping financial outcomes which results in impacting the ESG performance on the capital structure decisions and plays a significant role in terms of ownership and capital structure for driving sustainable product innovations.

5. Discussion

In terms of the decision of the studies show regarding different research articles that provide significant insight about the relationship between corporate governance, capital structure, environmental, social, and governance (ESG)". One of the major themes shows the emergence of a collection of significant roles of corporate governance in terms of shaping the financial performance of the organizations. The study by Abdullah and Tursoy (2023) sheds light on how corporate governance impacts financial performance within a shareholder-oriented system. The findings of the study help in providing compiling evidence in regards to the connection between the corporate governance practices and the financial outcome which helps in emphasizing the significance of a well-structured governance framework for enhancing the shareholder's value (Saha and Kabra. 2019). This helps in providing an understanding of the critical significance of governance mechanisms which not only helps in promoting transparency and accountability but also helps in showing the tangible implication of organizations' financial well-being.

Another critical dimension that helps in exploring these articles is related to the impact of ESG performance on capital structure decisions. According to Adeneye *et al.* (2023), show the Relationship between capital structure and the speed of adjustment which consider the influence of ESG performance. These finding helps highlight the growing relevance of sustainability factors in terms of financial decision-making (Rao *et al*. 2019). Here, businesses increasingly recognize the significance of ESG consideration in which the study helps in showing this performance which not just matters the ethical responsibility but also significantly affects how the organisation structures their overall capital. According to Amosh *et al.* (2023), the capital structure decision is influenced by the environmental, social and governance performance within a specific National context which helps in highlighting the dynamic nature of these interactions.

In addition to this, the research provided by Aibar-Guzmán *et al.* (2022), who introduced the major notions in terms of sustainable products in the industry of food agriculture. This study helps in terms of exploring the ownership and the capital structure which plays a significant role in terms of driving innovation, particularly in terms in terms of sustainability as the key consideration. This research shows the significance in terms of the need of businesses is to carefully consider their ownership and financing strategies which inbox the sustainable product innovation initiatives and also recognize the factor that is highly significant in determining the success of such endeavour (Yameen *et al*. 2019). Hence, it can be said that the research findings collectively help in showing the Dynamics and the interdependence of the nature of “corporate governance, capital structure, and ESG performance” within the contemporary business environment. This study helped highlight the critical role of corporate governance in shaping financial performance and underscored the growing significance of ESG considerations in capital structure decisions (Seth and Mahenthiran. 2019). Moreover, these findings bring to light the intricate relationship between ownership and capital structures and their impact on sustainable product innovation, particularly in industries where sustainability is a driving force.

6. Conclusion

In conclusion, this study has provided a comprehensive level of examination of the relationship between “corporate governance, management ownership, and capital structure” in the context of Indian companies. The overall research journey revealed various crucial insights and shed light on the intricate dynamics that exist among these components. Initially, the study shows the major played by corporate governance, in terms of shaping the financial performance and ethical standards of Indian organizations. The important corporate governance practices are instrumental in terms of promoting transparency, accountability and also responsible for decision making. With the help of using an effective level of corporate governance mechanism which is highly significant for attracting investments along with building trust among the stakeholders.

The research also helped in highlighting the major impact of management ownership on the corporate decision-making. Here, it is also observed that when the management holds an important level of stake in the organization, in which the interests are totally aligned with all those shareholders. In fact, the study also helped in highlighting the level of relationship between the capital structure and the corporate governance. This shows the evidence of the relationship between the capital structure and corporate governance and the ethical standards of the Indian organizations for a balance between debt and equity financing.

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