PREFACE

The publicly-held businesses are not directly managed and controlled by the owners. It is not practical for a large numbers of owners having varied fractions of ownership to take direct participation in the management of affairs of a company. Therefore, they employ managers as their agents to represent them in the business corporation and act in their best interest. But, perhaps this separation of ownership and control in the publicly held corporations remains the root cause behind a gamete of corporate governance problems of any country. One of such inevitable corporate governance crisis is the existence of a clash of interests between the principals and agents. In this regard, Jensen and Meckling (1976) agency cost theory puts forward a clear view regarding how the managers of a business entity tend to prioritise their self-interests and opportunistically use the free cash flows to satisfy their personal whims against the interest of their employing firms which leads to generation of agency costs. There is no such clearly prescribed solution of this agency crisis in the literature of corporate finance and governance.

However, a number of eminent scholars in this domain have evidenced that, the capital structure and the distribution of ownership among different investors have crucial bearings on the overall quality of corporate governance and also the agency crisis that arises between managers as the employed agents and the shareholders as the principals. Jensen and Meckling (1976) in their agency theory see the use of debt as a disciplinary force to restrain this managerial opportunistic behaviour and lower owners-managers agency crisis. Again, some studies like Shleifer and Vishny (1986), Friend and Lang (1988) show how ownership by institutional investors and big promoters ensures efficient monitoring of managerial decisions and actions from their part and reduce owners-managers agency problem and thereby improve firm performance. Besides, the ownership concentration is also recognised as a crucial internal governance mechanism to control owners-managers agency problem (Shleifer and Vishny, 1986; Friend and Lang, 1988). However, some literatures like Fama and Jensen (1983), Shleifer and Vishny (1997) and Burkart and Panunzi (2006) provide fairly opposite view where ownership concentration is shown as a source of conflict between the interests of minority and majority owners. Besides, owing to the fact that most of manufacturing firms in India are family controlled (Selarka, 2005; Altaf, 2016), the largest owner is supposed to play some special role in the management of affairs of these firms.

Under this backdrop, the present study makes a rigorous review of the existing set of literature and finds some crucial research gaps in different aspects like measurement of variable, use of econometric tools, validity of the results etc. The study develops a set of comprehensible research questions and puts highest possible efforts to find satisfactory answer to such questions. To be specific, driven by the inconclusive findings, the study finds it sensible to have some fresh empirical insights which can reveal the dubious relationship between capital structure, ownership structure and corporate performance. The study chooses a set of moderately balanced panel data consisting 91 manufacturing firms listed in BSE 200 index of Bombay Stock Exchange (BSE) of India for the period of 2009 to 2016 to establish the relationship. It introduces a set of independent variables like capital structure of firms, ownership of domestic promoters, ownership of promoters, ownership of institutional investors and ownership concentration. Considering the unique importance of largest shareholder in Indian manufacturing sector, the study also introduces ownership by largest owner as another independent variable. The study measures the corporate financial performance by return on assets, return on equity, Tobin's Q and market to book value ratio. Besides, the study also introduces a set of firm specific characteristics like age of firm, size of firm, liquidity ratio and assets utilization efficiency etc. as control variables. The study employs both static panel data analysis and dynamic panel data estimations under Generalised Method of Moments framework suggested by Arellano-Bond (1991) to arrive at the robust results.

Based on the findings of the panel data analysis the study concludes that, the capital structure choices and various forms of ownership including its concentration are significantly related with the financial performance of Indian manufacturing companies. Therefore, the corporate entrepreneurs of Indian manufacturing sector who can have mastery over these factors are highly supposed to ensure a vibrant internal governance mechanism and effective regulatory framework which provide them a competitive advantage in terms of low agency problems, minimised internal conflicts, high operational efficiency and improved financial performance.