

# Corporate Governance and Its Impact on Cost of Capital: Empirical Insights from Indian Listed Firms

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## Abstract

To perpetuate in stiff competition of corporate race, role of corporate governance in creating value for shareholders has got amplified and thus has become the subject of intense interest in corporate finance research. The main objective of our study is to examine the effect of corporate governance mechanism on cost of capital in listed Indian firms and to determine vital areas in corporate governance which directly or indirectly contribute towards reducing capital cost of sample listed Indian firms. This study is derived from sample of 270 NSE-listed Indian firms for period of nine years ranging from 2007–08 to 2015–16, using OLS multiple regression model. This empirically support to the understanding that corporate governance reduces firms cost of finance and is consistent in Indian weak legal corporate setting also. However, board characteristics have been found ineffective in causing overall cost of capital and debt and equity as well. Moreover, board characteristics have also failed to significantly affect the cost of debt. Governance effectiveness in reducing cost of capital through board structure, activities and disclosures are supporting the argument that, potential investors in equity and debt-holders favor monitoring mechanisms that are likely to limit managerial opportunism and consider board monitoring effectiveness as a source of greater assurance and confidence boosting mechanism among suppliers of finance and other stakeholders as well.

**Keywords:** Cost of Capital, Disclosures, Board Activities, Structure and Characteristics

## Introduction

In current arena of stiff competition corporations are looking for ways to boost sales and increase profits. Most effective ways are to concentrate on costs and reducing

capital costs are among vital areas to cope up and utilize the funds in the most promising growth opportunities and spend on innovation to drive growth to outperform competitors and provide good returns for shareholders. Thus cost management should be closely aligned with and made part of corporate growth strategies to set tailored cost-reduction targets and improve selective cost cutting and improved organizational capabilities. Cost of capital is a vital constituent for estimating progress of business and valuation of added value. Investor usually expects capital appreciation than incurred capital. Thus cost of capital is used as cut rate to estimate the fair value of an outlay. Cost of capital denotes a hurdle rate that a firm should earn to add value to invested capital by shareholders. It is cost of opportunity forgone by shareholders that could have been earned by investing it other ventures probably at same risk. Thus, it is the rate of return to satisfy shareholders economic expectation at a given level of risk. Generally the rate is determined by the supply and demand function in market and represents the degree of perceived risk by investors.

Cost of capital is a significant standard assessment tool for business decision making both from company prospectus and investors point of view. In layman term, it is cost of employing the funds surrendered by investors expecting minimum return for contributing capital in the hands of management. Thus it is the minimum return or benchmark or hurdle rate that a company must overcome for value addition to providers of funds. The yield a stockholder collects on an invested amount by stockholder is the cost of that particular security to the entity that called for it. A company's inclusive cost of capital is a combination

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of earnings required to reimburse all suppliers of finance. In finance and financial management it is connoted as weighted average cost collectively represents inclusive claims of all debt, equity holders and other creditors. The cost of capital thus becomes a critical factor in deciding which financing blend to opt whether debt, equity or a combination of the both. Infant corporations seldom have deficiency of sizable assets to pledge as collateral for debt financing, so equity financing becomes the default mode of funding for most of them. The cost of debt is merely the interest rate paid by the company on such debt and interest expense is tax-deductible.

There are ample of internal and external factors that affect cost of capital and devising control measures pose a challenge for the management to react accordingly. External factors like general economic conditions and market conditions are beyond the control of management thus require proactive approach to deal with. General economic conditions determine the demand for and supply of capital within the economy. Similarly, level of expected inflation and market conditions decide the fate of corporations thus demand higher degree of attention from management. On the other hand, capital structure policy, dividend policy, investment policy decisions taken under discretion of management are of vital importance to attract supply side and determine cost of capital. To some extent management actions may be inclined and self-interested to agents as postulated in agency theory which in turn will affect the inclination of individual investors, financial institution and rating agencies. Thus require a proactive role of corporate governance to mitigate the agency problems to reduce agency costs and reduce risk premium through ensuring transparency, accountability and balancing shareholders interest for better protection shareholders as well as stakeholders. Cost of capital affected by capital structure, dividend policy, investment policy, and risk management mechanism, however corporate governance mechanism (internal and external) can act as prominent agent to curb the value destroying activities/decisions and endorse decisions/activities to reduce cost of the capital thus enhance firm value.

In recent years, corporate governance with value-driven agenda is the matter of penetrating interest in corporate finance and other streams of research. The theoretical and practical prominence of corporate governance apparatuses that line up the interests of managers and shareholders as well as those that limit 'insider' expropriation have

been extensively accredited. However, in spite of this overall recognition of the role of corporate governance, pragmatic investigation has persisted indecisive about the monitoring mechanisms effectiveness in enhancing firm performance and add shareholder value. Agency risks are amplified when shareholders cannot monitor the managers perfectly as a result of information asymmetry (Jensen, 1986). Hence, shareholders are naturally very concerned about their ability to monitor and protect their investment (Smith & Warner, 1979; Kalay, 1982). Based on the risk-aversion properties, rational investors will demand a risk premium for bearing the agency risks, raising the cost of equity. A significant stream of governance and information asymmetry theories consider a significant relationship between information distribution and the cost of equity capital. One stream of research suggests that information reduces cost of equity capital by reducing investors' estimation risk. Another stream of research suggests that information reduces cost of equity capital by reducing information asymmetry and/or transaction costs. Kim and Sohn (2013) endorsed earnings management through the real activities manipulation is positively associated with the cost of equity capital. They also suggest that real earnings management activities decrease the information quality of earnings used by the investor, therefore, a higher risk premium is required to compensate these activities.

Numerous studies from related prior research contented that firms with fragile governance perform predominantly below par during market recessions and thus are subjected to incur higher cost of capital. (Mitton, 2002) Furthermore, at the macroeconomic level, disclosures affect real decisions (investment) as well as risk-sharing (among risk-averse investors facing remaining uncertainty associated with the firms' cash flows) Arthur Levitt (1998), the former chairman of the Securities and Exchange Commission, suggests that "high quality accounting standards reduce capital costs". Similarly, Neel Foster (2003), a former member of the Financial Accounting Standards Board (FASB) claims that "More information always equates to less uncertainty, and people pay more for certainty. In the context of financial information, the end result is that better disclosure results in a lower cost of capital." While these claims have intuitive appeal, there is surprisingly little theoretical work on the hypothesized link. Prior work also suggests an indirect link between disclosure and firms' cost of capital based on market liquidity and adverse selection in secondary markets (e.g., Diamond & Verrecchia, 1991;

Baiman & Verrecchia, 1996; Easley & O'Hara, 2004). Thus sound corporate governance mechanism wedded with transparency and accountability could not only play an important role in monitoring management activities reduce information asymmetry, but also can be proactive agent to curb value destroying activities and reduce cost of capital thus can play a crucial role in adding economic value to the firm.

## Review of Literature

Chen, Chen, and Wei (2003) examined the effects of disclosure and other corporate governance mechanisms on the cost of equity capital in Asia's emerging markets with newly released surveys from Credit Lyonnais Securities Asia (CLSA). The findings hold that governance variables are having significant negative effect on the cost of equity capital. In addition, the effect of non-disclosure governance mechanisms is more profound than that of disclosure on the cost of equity capital. Specifically, after controlling for beta and size, when a firm progresses its collective non-disclosure corporate governance ranking from the 25th percentile to the 75th percentile, its cost of equity capital is condensed roughly by 1.26 percentage points, while the parallel reduction in the cost of equity capital for the same improvement in disclosure is 0.47. Finally, country-level investor defense and firm-level corporate governance are found both important in sinking the cost of equity capital.

Findings suggested that, in emerging markets where infrastructural factors, such as the legal protection of investors and the overall level of corporate governance, are not well established, decreasing the expropriation risk by solidification of inclusive governance seems to be more vital in decreasing the cost of equity capital than implementing a more forthright disclosure policy.

Pham, Suschard, and Zein (2011) while evaluating the role of firm-level corporate governance mechanisms in explaining a firm's cost of capital in Australian unique governance setting large firms over period of 10 years. The results revealed that greater insider ownership, the presence of institutional block holders and independent boards can assist in reducing the perceived risk of a firm, thereby leading investors to claim lesser rates of return on capital supplied.

Bozec and Bozec (2010) investigated what causes firms with weak (strong) corporate governance to be valued

less (more) by investors and specifically examined the relationship between corporate governance scores and firms' cost of capital, comprising both equity capital and debt. The sample for study was 155 Canadian firms listed in S&P/TSX for four-year period from 2002 to 2005. The quality of firm-level governance was measured on the basis ROB index published by The Globe and Mail. While applying fixed-effect regressions in a 2SLS framework, the results indicate that the cost of equity/debt decreases as the quality of corporate governance practices increases. In other words, Canadian firms with greater ROB scores have a lower cost of capital throughout the study period.

Focusing components of cost of Capital Ramly (2011) examined the impact of corporate governance quality on firm's cost of equity of 101 listed Malaysian Bourse firms from 2003 to 2007. Corporate governance quality is assessed using a self-developed corporate governance index containing a large set of quality measures in six categories. Regression results point out that firms with high excellence corporate governance practices incur lesser cost of equity. Specifically, firms' board structure and procedures, practices that promoted shareholder rights and enhanced accountability and audit process have significant reducing impact on the cost of equity.

Li and Li (2013) empirically hypothesized whether corporate governance alleviates agency problems caused by the empire-building or shirking incentives of managers, tested and found that firms with stronger governance, all else equal, have less distorted investment policies, higher values of investment and divestiture options, and higher Tobin's Q. More importantly, those firms have greater expected returns during booms but inferior expected returns during busts equated to firms with weaker governance. The model was verified on large companies in S&P 500 and the largest corporations listed by Fortune, Forbes, and Business Week using a sample from 1990 to 2007 With G-index and E-index as the measures of governance.

Gomes (2014) empirically tested using a sample of 42 Portuguese listed companies, whether the quality of corporate governance could lead to a lower cost of debt, based on a corporate governance index built upon the recommendations on corporate governance applicable in Portugal. Further economic impact on the cost of debt was quantified in order to justify whether the companies should, or not, invest in better corporate governance practices to lower their cost of debt. The results suggested that

compliance with corporate governance recommendations has a very relevant statistical and economic impact on the cost of debt and can potentially contribute to a lower cost of capital by influencing the risk perceptions of lenders and other debt holders.

Byun (2007) examined the association between the cost of debt capital and corporate governance practices using Korea Corporate Governance Service (KCGS) based index as proxy of corporate governance. The study was attempted to explore whether sound corporate governance practices diminish agency costs and thus the default risk and cost of debt. The findings indicated that corporate governance practices are negatively related to the cost of debt capital after controlling for relevant control variables and that the association between the cost of debt capital and corporate governance practices is more noticeable in firms that have assets of more than 2 trillion won (approximately US\$2 billion). Thus, the results strongly suggest that sound corporate governance practices work favorably to lower the cost of external debt financing.

## Methodology

### Research Gap

To the researcher's best knowledge, it is evident from the literature discussed that there is dearth of such studies in India. A number of studies however, have been conducted in India attempted to measure the extent of disclosure by the firms in their annual reports. or their impact on firm valuation and performance, a few have examined its effect on cost of capital. No extensive study examining the impact of disclosure (Social and Environmental) on the cost of capital has been conducted in India. Further least of studies have been conducted regarding effect of corporate governance mechanism, like ownership accountability, responsibility fairness, and independence. Given the inconclusiveness of existing literature, below objective suggests an alternative and potentially more suitable way to investigate the impact of corporate governance on cost of capital.

### Objectives

The main objective to examine the effect of corporate governance mechanism on cost of capital in listed Indian

firms and to determine vital areas in corporate governance which directly or indirectly contribute towards reducing capital cost of sample Indian listed firms.

### Hypothesis Development

Taking prior literature as base, it is hypothesized that good governance reduces the overall cost of capital of the firm. Following are the sub hypothesis:

**Table 1: Hypothesis Development**

S.No	Research Hypothesis
1	H1: Board structure i.e. Large size and more independent and Non-executive director's in Indian firms have significant negative impact on cost of capital of the firm.
2	H2: Experienced, Diversified and Diluted CEO position Boards have significant negative impact on cost of capital of the firm.
3	H3: Higher Board Processes (Meetings) and Larger Involvement(Attendance) by members and Independent directors negatively affect cost of capital of the firm.
4	H4: Corporate disclosures (ESG) has significant negatively affect cost of capital of the firm.

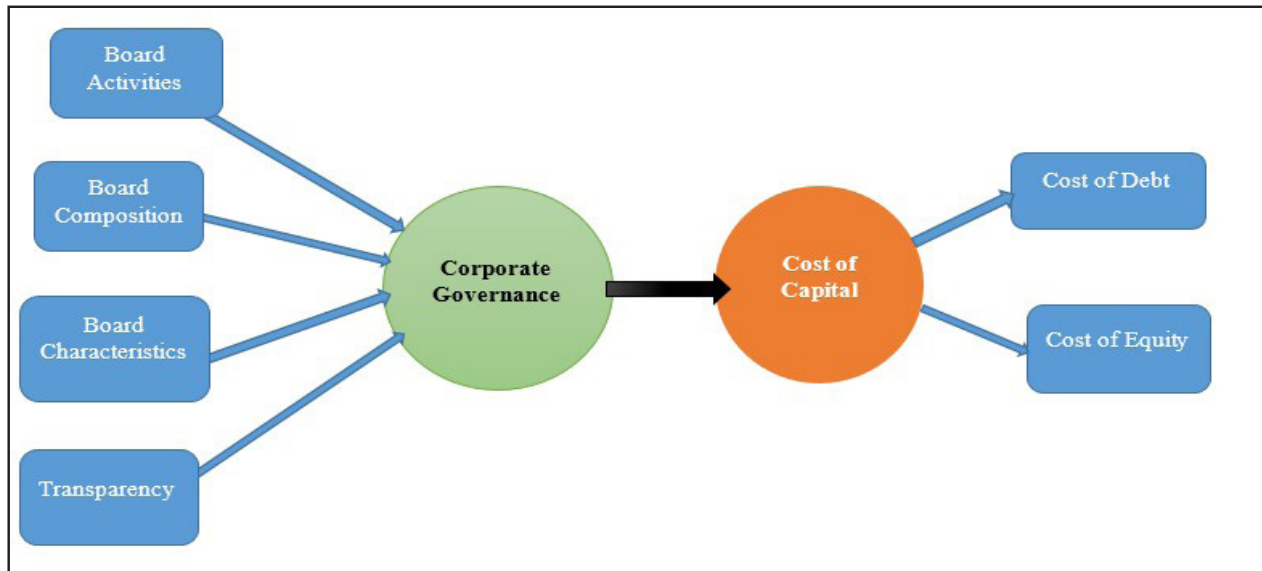
## Methodology

The study was conducted under causal research design exploring effects of one set of variables on other and due to deductive nature of research directional hypothesis were framed to be tested. *Sampling*: The population for the study was Indian listed companies. The sample for the study was NSE 500 companies while using judgmental sampling method and following procedure of systematic removal procedure final sample was reduced to 270. Firstly, sample was reduced to 334 by removing banking and financial companies due to difference in investment, financing processes and opportunities, supervisory and regulatory requirements (Adams & Mehran, 2003). Secondly further reduction to the sample size was made due to unavailability of data. Finally, inconsistency of firm to maintain its separate legal identity throughout study period lead the reduction of sample size to 270.

The study period was 9 years ranging from 2007–08 to 2015–16, covering post influence of amendment of 8 April 2008, Clause 49 of the Listing Agreement, by SEBI and new Corporate Governance Voluntary Guidelines

and new Corporate Social Responsibility Voluntary Guidelines issued by MCA. Thus total number of firm year observations was 2430. Data was collected from

Bloomberg and Prowess data base and for missing entries financial statements of that particular year of that particular company were referred.



**Fig. 1: Model of Corporate Governance and Cost of Capital**

### Statistical Tools Employed

Basic OLS multiple regression method was applied to check relationship and its statistical significance. SPSS was used to run the following regression model with stated control variables in prior literature. Assumptions to run regression OLS regression model were tested and found that the linear regression model is “linear in parameters”, there is no multi-collinearity (or perfect collinearity) and there is homoscedasticity and no autocorrelation as well.

Equation I

$$B\_Size + B\_Ind + B\_NEDBoard + BC\_WIB + BC\_CD + BC\_CT + BC\_BT + BC\_AA + BC\_BAR) + B\_M + BMA + BMAID\beta_4 + Transparency (Tr\_GD + Tr\_ED + Tr\_SD) + \epsilon$$

$$B\_Size + B\_Ind + B\_NEDBoard + BC\_WIB + BC\_CD + BC\_CT + BC\_BT + BC\_AA + BC\_BAR) + B\_M + BMA + BMAID\beta_4 + Transparency (Tr\_GD + Tr\_ED + Tr\_SD) + \epsilon$$

Equation II

$$B\_Size + B\_Ind + B\_NEDBoard + BC\_WIB + BC\_CD + BC\_CT + BC\_BT + BC\_AA + BC\_BAR) + B\_M + BMA + BMAID\beta_4 + Transparency (Tr\_GD + Tr\_ED + Tr\_SD) + \epsilon$$

Equation III

$$B\_Size + B\_Ind + B\_NEDBoard + BC\_WIB + BC\_CD + BC\_CT + BC\_BT + BC\_AA + BC\_BAR) + B\_M + BMA + BMAID\beta_4 + Transparency (Tr\_GD + Tr\_ED + Tr\_SD) + \epsilon$$

**Table 2: Description of Variables**

		Indicators	Description	
Corporate Governance Constructs	<b>Board Structure/ Composition</b>	<i>B_Size</i>	Number of Directors in Board	
		<i>B_Ind</i>	Proportion (%Age) of Independent Directors in Board	
		<i>B_NED</i>	Proportion (%Age) of Non-Executive Directors in Board	
	<b>Board Activities</b>	<i>B_M</i>	No of Board Meetings Conducted During Period of One Year	
		<i>BMA</i>	%Age of Board Members Attended Meetings Held	
		<i>BMAID</i>	%Age of Independent Directors Attended Meetings Held	
	<b>Board Characteristics</b>	<i>BC_WIB</i>	Proportion (%Age) of Non Women Directors in Board	
		<i>BC_CD</i>	Indicates whether the company's Chief Executive Officer is also Chairman of the Board ('1' - Yes &'0' - No)	
		<i>BC_CT</i>	Span of CEO term. Number of Years	
		<i>BC_BT</i>	Average Span of Directorship term	
		<i>BC_AA</i>	Average Age of Board of Board of Directors	
		<i>BC_BAR</i>	Calculated by subtracting the age of the youngest director currently on the company board from the age of the oldest director	
	<b>Transparency</b>	<i>Tr_GD</i>	The score ranges from 0.1 for companies that disclose a minimum amount of governance data to 100 for those that disclose every data point collected by Bloomberg. Each data point is weighted in terms of importance, with board of director's data carrying greater weight than other disclosures.	
		<i>Tr_ED</i>	The score ranges from 0.1 for companies that disclose a minimum amount of ESG data to 100 for those that disclose every data point collected by Bloomberg. Each data point is weighted in terms of importance, with data such as Greenhouse Gas Emissions carrying greater weight than other disclosures.	
		<i>Tr_SD</i>	The score ranges from 0.1 for companies that disclose a minimum amount of social data to 100 for those that disclose every data point collected by Bloomberg. Each data point is weighted in terms of importance, with workforce data carrying greater weight than other disclosures.	
	C O C	<b>Cost of Capital</b>	<i>COD</i>	Cost of debt refers to the effective rate a company pays on its current debt. For mullah is $k_d = r_d \times (1 - T)$
			<i>COE</i>	Cost of equity is the return (often expressed as a rate of return) a firm theoretically pays to its equity investors, i.e., shareholders, to compensate for the risk they undertake by investing their capital. Cost of Equity = Risk-Free Rate of Return + Beta * (Market Rate of Return - Risk-Free Rate of Return).
			<i>WACC</i>	The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets. Calculated by $WACC = E/(E + D) * \text{Cost of Equity} + D/(E + D) * \text{Cost of Debt} * (1 - \text{Tax Rate})$

Source: Created by Author

**Table 3: Descriptive Statistics of Variables**

Variables	Mean	Min	Max	SD	Kurtosis	Skewness
<i>BC_BoardSize</i>	9.54	4.00	18.00	2.64	0.17	0.53
<i>BC_BoardInd</i>	51.81	25.00	90.00	10.43	0.44	0.21
<i>BC_NED</i>	6.94	3.00	12.00	1.94	-0.19	0.28
<i>BA_BMeetings</i>	5.57	1.00	12.00	2.25	0.02	0.41
<i>BA_BMAttendace</i>	83.67	46.79	100.00	9.44	0.48	-0.71
<i>BA_IDAttBM</i>	80.17	50.00	95.00	9.83	0.24	-0.77
<i>BC_BAvAge</i>	59.55	40.15	70.00	5.05	-0.51	-0.07
<i>BC_BAgeRange</i>	25.89	-1.90	64.80	11.14	-0.04	0.42
<i>BC_CeoDuality</i>	0.33	0.00	1.00	0.47	-0.47	0.73

Variables	Mean	Min	Max	SD	Kurtosis	Skewness
BC_WomInBoard	13.82	5.00	30.00	4.24	0.79	0.66
BC_CeoTenure	4.74	1.00	10.00	2.12	-0.53	0.24
BC_Av_Ten_Board	7.94	2.02	19.97	3.56	0.29	0.63
Tr_GovDis	45.09	28.57	58.93	4.12	0.08	0.80
Tr_EnvDis	10.98	2.14	29.85	4.14	0.27	0.68
Tr_SocDis	18.60	0.88	44.91	9.73	-0.20	0.46
COD	10.28	.001	14.92	1.69	0.46	0.53
COE	11.40	5.05	15.98	1.77	0.18	0.60
WACC	7.01	5.01	11.98	1.45	0.67	0.75

The descriptive statistics in table 3 reveals that almost all variables are closer to normality. As all kurtosis and skewness values are closer to 0.5 (-or+).

**Table 4: Regression Coefficients & Significance Level of Corporate Governance and Cost of Capital**

		Coefficients & Significance Level		
		COD	COE	WACC
	(Constant)	1.463***	9.674***	7.315***
Board Structure	BC_BoardSize	-.185***	-.003 <sup>NS</sup>	-.055***
	BC_BoardInd	-.041***	-.002 <sup>NS</sup>	-.005**
	BC_NED	-.164***	-.019 <sup>NS</sup>	-.054**
Board Activities	BA_BMeetings	-.024***	-.049**	-.025**
	BA_BMAttendace	-.013***	-.006**	-.008**
	BA_IDAttBM	-.006**	-.003**	-.018*
Board Characteristic	BC_BAvAge	-.043 <sup>NS</sup>	-.016 <sup>NS</sup>	.015 <sup>NS</sup>
	BC_BAgeRange	.005 <sup>NS</sup>	-.009 <sup>NS</sup>	.004 <sup>NS</sup>
	BC_CeoDuality	.037**	.006**	.102***
	BC_WomInBoard	-.017 <sup>NS</sup>	-.001 <sup>NS</sup>	.010 <sup>NS</sup>
	BC_CeoTenure	.015 <sup>NS</sup>	-.028 <sup>NS</sup>	-.008 <sup>NS</sup>
	BC_AveTenureofBoard	-.017 <sup>NS</sup>	-.021**	-.024***
Disclosures	Tr_GovDis	-.036**	-.010**	-.011**
	Tr_EnvDis	-.026**	-.021**	-.012***
	Tr_SocDis	-.015**	-.008**	-.019***
Control Variables	MV-BV	-.196***	.041 <sup>NS</sup>	-.171***
	D-EQ-R	-.084***	.073***	-.029***
	ROA	-.031***	-.003*	-.001**
	Discretionary Accruals	.382 <sup>NS</sup>	-.601**	-1.106***
R Square		16.34%	19.29%	31.32%
Adjusted R Square		15.11%	17.33%	30.03%

Source: SPSS Output. Note: NS=Not Significant \*= $P < .10$ , \*\*= $P < .05$ , \*\*\*= $P < .01$

### Board Structure and Cost of Capital

Table 4 depicts board structure comprising board size and independence is having significant negative impact on cost debt as well as overall cost of capital while as is ineffective in affecting cost of equity. Cost of debt and overall cost of capital being negatively related to

board composition infers that size and greater number of independent directors on board serve as a measure of safety for debt-lenders. This goes in consistence with the research that the appointment of the additional outside director and non-executive directors reduces cost of debt and total cost of capital as well consistent with (e.g., Anderson, Mansi, & Reeb, 2004).

Contrarily board structure has no statistically significant relation with the cost of equity capital. A larger board size and illusive independence with less diversity of managerial talent seems to be probable factor for the relationship. This is fairly conceivable to believe in family dominated business contexts like India where boards are directly or indirectly influenced by promoters. Contradicting to most of prior studies Chen, Chen, and Wei (2009) our results are consistent with Blom and Schauten (2008), Limpaphayom and Connelly (2008), and Price, Roman, and Rountree (2010).

### Board Characteristics and Cost of Capital

Results in Table 4 denote that board characteristics except CEO duality have been futile to claim significant causality on cost of capital. Board diversity like expertise age and tenure seems to be delusion to enhance supervision and has not been taken into consideration by debt and equity suppliers consistent with (Core, Guay, & Rusticus, 2006; Bhagat & Bolton, 2008; Chidambaran, Palia, & Zheng, 2008; Fodor & Diavatopoulos, 2010). Reinforced by the view that too many directorships may lower the effectiveness of directors as corporate monitors (Fich & Shivdasani, 2006; Shivdasani & Yermack, 1999; Ferris, Jagannathan, & Pritchard, 2003) claim that busy boards are not as effective as non-busy boards at monitoring.

CEO duality has significant positive impact on cost of capital Fama and Jensen (1983) suggest that CEO duality may hinder board's ability to monitor management (promote entrenchment and weaken board monitoring effectiveness) and thereby increase agency cost. The unified leadership, separation of board chair from the CEO will end up exacerbating the agency cost (Boyd, 1995). Given higher risk and the weak external and internal governance system in Indian context the lenders would possibly demand higher risk premium in the context thus increasing the cost of capital.

### Board Activities and Cost of Capital

Board activities or processes in the form of meetings and attendance has significant negative impact on cost of capital both cost of debt and equity as shown in Table 4. It seems to be effective mechanism to enhance supervision consistent with Vafeas (1999), Adams (2003) and García Lara, García Osmá, and Peñalva (2009) stating that the number of board meetings is a good proxy for the directors' monitoring effort. As Menon and Williams

(1994) note, boards that do not meet, or meet only a small number of times, are unlikely to be effective monitors. Strengthened by Anderson et al. (2004) findings that audit committee meeting frequency decreases debt costs, indicating debtholders' concern with directors actively monitoring the financial accounting process and rejecting the opposing view that board meetings are not necessarily useful because routine tasks absorb much of the limited time directors spend together and CEOs almost always set the agenda for board meetings.

### Disclosures and Cost of Capital

Corporate disclosures in the form of environment, social and governance disclosures have significantly contributed in reducing the cost of debt, equity as well as overall cost of capital as there is significant negative relation relationship between disclosures and cost of capital presented in Table 4. Our empirical support is consistent with (Demsetz, 1968; Amihud & Mendelson, 1986; Gruning, 2011) supporting the negative relationship of increased disclosures to cost financing based on the improved stock market liquidity thus attract more long-term investors. This in turn will positively influence the market price and the marketability of the firm's stock, thus reducing company's cost of financing. Secondly, the increased disclosure would decrease the cost of equity by reducing estimation risk (Handa & Linn, 1993; Coles, Loewenstein, & Suay, 1995; Chiao, Lin, & Lai, 2015). Furthermore, reporting of ESG determines socially responsible and environmentally sustainable behavior and practices of corporates which could significantly lower cost of financing from market sensitive to society and environment as well (Sharfman & Fernando, 2008; Dhaliwal, Li, Tsang, & Yang, 2009; El Ghouli, Guedhami, & Pittman, 2010; Borghesi, Houston, & Naranjo, 2014; Crifo & Forget, 2015).

### Conclusion and Suggestions

The main purpose of the study was to evaluate Indian corporate governance effectiveness in reducing the cost of capital of listed Indian firms. From sample of 270 NSE listed Indian firms for period of nine years ranging from 2007–08 to 2015–16, using multiple regression models. While hypothesizing negative relationship between good governance and cost of capital both debt as well as equity as documented in prior research. Board characteristics as a governance factor has been found ineffective in causing

cost of capital (debt as well as equity) and Board structure on cost of debt as well. In case of board activities and disclosures our results are consistent with (Anderson et al., 2004; Ashbaugh-Skaife, Collins, & LaFond, 2006; Bhojraj & Sengupta, 2003; Ertugrul & Hegde, 2008; Piot & Missonier-Piera, 2007) supporting the argument that potential investors in equity. Debtholder's favor monitoring mechanisms that are likely to limit managerial opportunism and consider board monitoring effectiveness as a source of greater assurance with respect to the integrity of accounting numbers, so improving the financial accounting process. Therefore, the quality of monitoring through corporate governance devices may mitigate risk and, consequently these creditors allow a reduction in their risk premium thus reducing cost of financing activities of firm as well. The study has highlighted the areas of effective governance which are of great concern to suppliers of finance to firm. It also highlighted ineffective areas of governance inadequate in reducing the cost of financing the activities of firm. Thus, challenging governing bodies to determine course of action for improvement of corporate governance to gain investor confidence through different training and development programs. Information processing accounting competencies can be imparted to directors to improve coherence in business direction and approach, ensure corporate responsibility, and excel company accountability for stakeholder's confidence in emerging and less efficient markets like India.

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