Agency Problems and Corporate Governance Mechanisms in Indian Companies

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Abstract: ***This research paper empirically examines the nature of relationship between agency cost and corporate governance mechanisms, and discusses the various internal and external corporate governance mechanisms that introduced to mitigate the agency problems in Indian companies. The descriptive statistics show that Indian companies are gradually moving towards compliance to the governance mechanisms. This research paper has utilized two alternative proxies for agency cost, Tobin's Q and Free Cash Flow (FCF). The regression results on the proxy of agency cost (TOBIN'S Q) establish that the governance mechanisms are not viable corporate governance mechanisms. However, the findings prove that leverage and shareholders' committees are the specific governance mechanisms, which mitigate the agency problems.***

Keywords: Corporate Governance, Agency Conflicts, Moral Hazard, Leverage, Debt Maturity

I. INTRODUCTION

Ownership separation and control in present corporations leads to conflict of interests between stakeholders and managers. The firm's managers may have personal goals that contend with the shareholders' wealth maximization goals. Jensen and Meckling (1976) suggest that the debt maturity and leverage are effective means to mitigate the agency problems induced by conflicts of interest between shareholders and managers. The conflict of interest between bondholders and shareholders may also cause agency problems. The dividend pay-off, claim dilution, asset substitution and underinvestment present potential opportunities for wealth transfer from bondholders to stockholder. (Smith and Warner (1973) The agency cost theory recommends that the short-term debt with covenants, debt with call and sinking fund provisions and debt maturity matching are effective strategies to mitigate agency problems. Myers (1997), Barnea, Haugen and Senbet (1980), Venugopalan and Vij (2014)

Corporate governance is defined as the system by which companies are directed and controlled, (Cadbury Report (1992)). Mechanisms of corporate governance, which are economic and legal institutions, provide assurance of safety of investments and reasonable rate of return by monitoring and controlling the managers. (Shleifer and Vishny (1997)) A vast literature on corporate governance has empirically examined various internal and external corporate governance mechanisms that can mitigate agency problems.

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The leverage and debt maturity, ownership structure, board structure, composition of independent directors and executive directors, managerial remuneration, and board committees are the corporate governance mechanisms. Ang, Cole and Lin (2000), McKnight and Weir (2009), Grossman and Hart (1988), Shleifer and Vishny, (1986, 1997)

Indian financial system has been characterized by the complex industry structure and imperfect financial market conditions coupled with the weaknesses in the legal systems, which has increased the agency conflicts between various stakeholders of the organizations. The numerous corporate scandals and collapse of multinational companies had spread shock waves across the world and shaken the investors trust and confidence. The Government of India adopted and implemented various governance codes, which were derived from the global initiatives on corporate governance for bringing about better corporate governance in Indian corporate sector.

The main objectives of this research paper are to examine the various internal and external corporate governance mechanisms and to empirically test whether these governance mechanisms are able to mitigate the agency problems in the Indian corporate sector or not.

II. LITERATURE REVIEW

This section will provide a brief discussion on the theoretical framework and a review of major empirical works on agency theory and corporate governance. The corporate governance mechanisms ensure wealth maximization by mitigating agency problems existing organizations between the managers and other stakeholders. There is various internal and external governance mechanisms which have been adopt and implemented for bringing better governance. Hence, the null hypothesis is that the corporate governance mechanisms have no significant impacts on the agency conflicts and hence no relationship is expected between the governance mechanisms and agency costs. However, this research paper has stated the traditional agency propositions as alternative hypothesis for empirically testing and validating whether the governance mechanisms are able to mitigate the agency problems in Indian companies

Agency Cost

This research paper has utilized two alternative efficiency ratios, Tobin's Q and Free Cash Flow (FCF). The empirical research has identified Tobin's Q as the proxy for measuring the agency.

The firms with high growth options in the investment opportunity set experience agency problem induced by the conflict of interest between managers and stakeholders over the exercising these investment opportunities. (Myers (1977), Barnea, Haugen and Senbet (1998))

$$\textbf{TOBIN'S Q} = \frac{MARKET\ VALUE\ OF\ THE\ FIRM}{BOOKVALUE\ OF\ THE\ FIRM}$$

Jensen and Mackling (1976) provide absolute measure of agency cost which is the zero agency cost base when the firm hold single owner manager. (Opler and Titman (1993), McKnight and Weir (2009)) Free Cash Flows (FCF) is calculated by operating income before depreciation minus sum of taxes plus interest expenses & dividend paid total assets.

$$\textbf{FREE CASH FLOWS (FCF)} = \frac{EBITDA-TAXES+INTEREST\ EXPENSES\ AND\ DIVIDEND}{TOTAL\ ASSETS}$$

Corporate Governance Mechanisms

Ownership Concentration: larger shareholders may control managerial decision and try to reduce the agency cost by enhancing performance. (Grossman and Hart (1988), Renneboog (2000)) To test the impact of ownership concentration on agency cost this paper has included the promoters' stake in the equity capital. The ownership concentration is proxied to promoters' holdings, which is the ratio of promoters' equity holdings to total equity shares.

Hypothesis1: Promoters' holdings and agency cost are inversely related.

$$\textbf{Promoters' Holdings (PROMHOLD)} = \frac{PROMOTOER\ EQUITY\ HOLDING}{TOTAL\ EQUITY\ SHARES}$$

Size of Board: The small boards are more vigilant to agency problems because they are more organized in function and effectively monitor the management to improve the corporate decision making process and optimize corporate performance and accountability in the interest of shareholders and the broader economy (Shleifer and Vishny (1986, 1997).

Hypothesis 2: Size of board is directly related to agency cost.

Board Size (BOARDSIZE) = Total Number of Directors Appointed in the Board.

Independent Directors:

According to the regulation of corporate governance non-executive directors should be at least hold one third of the total board which may lower the potential that board controlled by management and the increase the ability to monitor of the non-executive directors. (Renneboog (2000), McKnight and Weir (2009).

Hypothesis 4: An inverse relationship exists between the proportion of independent directors and agency cost.

Hypothesis 5: Proportion of executive directors in the board is inversely related to the agency cost

$$\textbf{Independent Directors (INDIRECTOR)} = \frac{INDEPENDENT\ DIRECTORS}{TOTAL\ DIRECTORS}$$

$$\textbf{Executive Directors (EXEDIRCTOR)} = \frac{NON-EXECUTIVE\ DIRECTORS}{TOTAL\ DIRECTORS}$$

CEO Chairperson Duality: The CEO is important link in between the board and the management and having the clear roles and responsibilities of functions. (McKnight and Weir (2009) As far as the separation between the role of CEO and Chairperson of board is concerned, it is believed that separated roles can lead to better board performance and less agency conflicts, Hermalin and Wiesbach (1991). The separating the functions of CEO and chairperson strengthen the boards monitoring ability, better board performance and less agency conflicts, since non-executive chairperson could ensure more independence from management. (Renneboog (2000), Hermalin and Wiesbach (1991), Shleifer and Vishny (1986, 1997))

Hypothesis 6: Separation of the posts of CEO and Chairman of the Board leads to lower agency cost.

CEO-chairperson Duality (DUALITY) = Binary variable 1 if the post of Chief Executive officer and Chairman of the board are held by the same person and 0 otherwise.

Audit Committee: The constitution of audit committee is a statutory requirement and one of the most important governance mechanisms, which acts as bulwark against the mounting agency conflicts. Audit committee is constituted to assist board of directors in oversight of company's financial reporting accounting, and auditing process of financial statements.

Hypothesis 7: Audit Committee and agency costs are negatively related.

Audit Committee (AUDITCOM) = Dummy variable 1 if the firm has an audit committee comprised of independent directors and 0 otherwise.

Nomination and Remuneration Committee: The board committees are specific governance mechanism, which can reduce agency costs. Nomination committees are to ensure that selection of directors, whether executive or non-executives should make on merit basis rather than by patronage. A perfect combination of both executive and non-executive directors in the nomination committee will lead to lower agency cost, (McKnight and Weir 2009).

Hypothesis 8: Nomination and compensation committee is inversely related to agency cost.

Nomination and Remuneration Committee (NREMUCOM) = Dummy variable 1 if the firm has a formal nomination committee and 0 otherwise.

Shareholders' Grievance Committee: The shareholders' grievance committee is another governance system that has been constituted to impart governance in corporations under the chair of a non-executive director, who shall be specifically address the grievance of shareholders regarding their rights and privileges including the alleged oppression and mismanagement by dominant groups. (Shleifer and Vishny (1997), Grossman and Hart (1986), Floracksis and Ozkan (2004))

Hypothesis 9: Shareholders committee is negatively related to agency cost.

Shareholders Committee (SHARECOM) = Binary variable 1 if the firm has shareholders' committee and 0 otherwise.

Leverage: Empirical literature on corporate governance suggests that the debt and leverage are corporate governance mechanism which can reduce agency cost. Leverage with increasing value should reduce the agency costs inherent in a firm's operating structure. (Shleifer and Vishny (1986, 1997)) The high leverage promotes management to generate adequate funds to service the debt commitment. Thus, a high debt equity ratio is expected to reduce management's discretion and summon more intensive creditor monitoring.

Hypothesis 10: Leverage is inversely related to agency cost.

Leverage (LEVERAGE) = $\frac{DEBT}{TOTAL\ CAPITAL}$

Debt Maturity: The debt maturity is also important governance mechanism that is helpful in reducing the expected cost of agency conflict between shareholders and debenture holders over the information asymmetry, growth opportunities and underinvestment problems. (Leland and Pyle (1977), Campbell and Kracaw (1980), Flannery (1991) and Venugopalan and Vij (2014))

Hypothesis 11: Debt Maturity is negatively related to agency problems.

Debt Maturity (DEBTMAT) = $\frac{DEBT}{TOTAL\ CAPITAL}$

Bank Debt: Agency problems within a firm are usually related to free cash flow and asymmetric information problems (Jensen (1986) and Floracksis (2008). The debt servicing obligation help to reduce agency problems and this is particularly true for privately held debt. Thus, the empirical prediction is that bank debt is an effective governance mechanism, which can reduce agency conflicts between managers and debt holders.

Hypothesis 12: Bank debt is inversely related to agency cost.

Bank Debt (BANKDEBT) =$\frac{BANK\ DEBT}{TOTAL\ DEBT}$

Firm Size: Hypothesis establishes that firms with relatively large amount of future investment opportunities are smaller and are more likely to face conflicts of interest between shareholders and managers. Hence, the empirical prediction is that small firms are subjected to high levels of agency costs.

Hypothesis 13: Firm size is inversely related to agency costs.

Size of the Firm (FIRMSIZE) = Natural logarithm of market value of the firm

III. RESEARCH METHODOLOGY

Sample: The empirical investigation of the agency problems and corporate governance mechanism is based on secondary data derived from the ***PROWESS*** database, the Centre for Monitoring Indian Economy (CMIE). The sample is drawn from the BSE 500 index, which represents nearly 93% of the total market capitalization on Bombay Stock Exchange (BSE) and comprised of 20 industries including manufacturing and service sector. We have excluded Firms with Missing information and financial firms from the sample. The study is confined to a span for 5 years beginning from 2012-2017. The panel regression methodology is adopted for examining the agency problems and corporate governance in Indian corporate sector, by pooling cross sectional data across time. The final panel data set composed of 1900 observations from 380 companies.

Panel Regression methodology: The panel data analysis is a method of studying a particular subject within both spatial and temporal dimensions. The fixed effect regression and random effect are important methods of panel data analysis. The general formulation of the fixed effect linear panel data model is given below:

$Y_{it} = \alpha_i + X_{it}'\beta + U_{it}$

where i=1, …., N firms, t=1,...,T time periods with k regressors in $X_{it}'$and $U_{it}$is standard error term and $Y_{it}$is agency cost. The constant αi represents the unobservable individual firm-specific effects with which differs between firms and is time invariant.

Specification Tests: For examining the suitability panel data, the specification tests such as normality, poolability, autocorrelation, serial correlation, heteroskedasticity and cross sectional dependence were performed. The Wooldridge test, modified Wald statistics, Pesaran CD test, and unit root test expose that the panel data is free from the heteroskedasticity, autocorrelation, cross-sectional dependence and serial correlation. However, we have used a non-parametric covariance matrix estimator Driscoll and Kray standard errors that produces heteroskedasticity consistent standard errors, which are robust to very general forms of spatial and temporal dependence. Hoechle and Basel (2008). Hausman test showed that the fixed effect regression method is more appropriate for panel data analysis.

Dependent Variables and Independent variables: To measure the agency cost of the firm we have used two alternative dependent variables Tobin's Q and Free Cash Flow (FCF). We have also identified eleven proxies of corporate governance mechanism; (Board Size (BOARDSIZE), Independent Directors (INDIRECTOR), Executive Directors (EXEDIRCTOR), Promoters' Holdings (PROMHOLD), CEO-chairperson duality (DUALITY), Audit Committee (AUDITCOM), Nomination and Remuneration Committee (NREMUCOM), Shareholders Committee (SHARECOM), Leverage (LEVERAGE), Debt Maturity (DEBTMAT), Bank Debt (BANKDEBT) and Firm Size (FIRMSIZE).

Methods: We have used the usual statistics such as descriptive statistics, Pearson's correlation coefficients and panel regression method for investigating the agency problems and corporate governance mechanisms in Indian corporate sector.

IV. DATA ANALYSIS AND DISCUSSION

Descriptive Statistics

In this section mean, median and standard deviation has calculated to explain the nature of independent and dependent variables.

Table. 4.1 Descriptive Statistics

Variables	Mean	Standard Deviation
TOBIN'S Q	1.876	2.159
FREE CASH FLOW (FCF)	0.078	0.080
PROMHOLD	53.186	20.620
BOARDSIZE	10.512	3.744
INDRIECTOR	48.225	16.742
EXEDIRETOR	25.504	13.144
DUALITY	0.554	0.497
AUDITCOM	0.923	0.270
REMUCOM	0.468	0.499
SHARECOM	0.589	0.492
LEVERAGE	0.175	0.177
DEBTMAT	0.532	0.406
BANKDEBT	0.457	0.367
FIRMSIZE	9.660	1.802

Source: Prowess Database

Table 4.1 show descriptive statistics for the dependent and independent variables used in this research paper. It reveals that the agency cost proxies Tobin Q and Free Cash Flow related to agency cost (TOBIN'S Q). On the contrary, the correlation coefficients on LEVERAGE, DEBTMAT and FIRMSIZE establish that leverage, debt maturity and firm size are significant and negatively correlated with agency cost (TOBIN'S Q). The correlation coefficient on DUALITY, AUDITCOM, SHARECOM and NOREMUCOM reveal the positive but insignificant correlation between the agency cost (TOBIN'S Q) and the CEO-chairperson duality, audit committee, shareholders' committee and nomination and remuneration committee. However, the coefficients on BOARDSIZE, INDRIECTOR and BANKDEBT establish insignificant and negative correlation between the agency cost (TOBIN'S Q) and board size, independent directors and bank debt.

Table. 4.2 Pearson's Coefficient of Correlation

VARIABLES	TOBIN'S Q	FREE CASH FLOWS (FCF)
TOBIN'S Q	1.0000	
FREE CASH FLOW (FCF)		1.0000
PROMHOLD	0.1717*	0.476*
BOARDSIZE	-0.0338	-0.0309
INDIRECTOR	-0.0063	0.0326
EXEDIRECTOR	0.0559*	0.0367
DUALITY	0.0007	-0.0216
AUDITCOM	0.0287	-0.0297
NOREMUCOM	0.0153	-0.0034
SHARECOM	0.0201	-0.0021
LEVERAGE	-0.3793*	-0.2784*
DEBTMAT	-0.1116*	-0.0911*
BANKDEBT	-0.0299	-0.0604*
FIRMSIZE	-0.0667*	0.0361

*t-statistics are reported in the parentheses below parameter estimates: * p<0.05*

Source: Prowess Database

Table 4.2 shows that the Pearson's correlation coefficients on promoters' holdings (PROMHOLD) and executive directors (EXEDIRECTOR) are significant and positively recorded mean values of 1.872 and 1.87 respectively. The average number of directors in board (BOARDSIZE) is 10.51 of which 48.23% of board members are comprised of independent directors (INDIRECTORS) and the executive directors (EXEDIRECTORS) represent 25.50% of the board. In Indian companies, on an average the ownership concentration as represented by the promoters' holdings (PROMHOLD) is 53.525%. The mean value of DUALITY is 0.554, which indicates that 55.4% of the companies (212 companies out of 380) have implemented the separation of the role CEO and Chairperson of the board.

Table 4.1 shows that 92.3% of the sample companies have duly constituted audit committees (AUDITCOM). However, 46.8% of the companies have constituted nomination and remuneration committees (NOREMUCOM) for recommending the appointment of board members and fixing the managerial remuneration. Similarly, only 58.9% of the companies have constituted shareholders' grievance committee (SHARECOM) to address the shareholders grievances. The average leverage (LEVERAGE) of sample company is 0.175 which shows that the approximately 17.5% of the capital is contributed through debt. The debt maturity (DEBTMAT) of firms in the sample is averaged at 0.53, which reveals that 53% of the total debt has maturity of more than one year. The average value of bank debt is 0.459, which establishes that 45.9% total debt capital is financed through bank debt (BANKDEBT).

Correlation Analysis

Table 4.2 provides the Pearson's correlation coefficients that disclose the nature and extent of relationship between dependent variables and independent variables.

From the table 4.2, the coefficient of correlation on second proxy of agency cost, FREE CASH FLOW (FCF) and PROMHOLD is significant and positively correlated. However, the insignificant coefficients on leverage (LEVERAGE), debt maturity (DEBTMAT) and bank debt (BANKDEBT) are negative and significantly correlated to the FREE CASH FLOW (FCF). However, the independent variables such as board size (BOARDSIZE), CEO-Chairperson duality (DUALITY), audit committee (AUDITCOM), shareholders' committee (SHARECOM) and, nomination and remuneration committee (REMUCOM) are not significant but negatively correlated to FREE CASH FLOW (FCF). The correlation coefficients

on Executive Directors (EXEDIRECTOR), independent directors (INDIRECTOR) and firm size (FIRMSIZE) are positive but insignificantly correlated with FREE CASH FLOW (FCF).

Multivariate Regression Analysis

We examine nature and extend of the relationship between the agency cost and governance mechanisms the dependent variables are regressed on the independent variables using panel OLS regression methodology. This paper has utilized two regression models based on the proxies of agency cost TOBIN'S Q (model 1) and FREE CASH FLOWS (FCF) (Model 2). Table 4.3 presents the multivariate regression results on dependent variable and the independent variables.

Table. 4.3 Fixed Effects Regression on Agency cost and Governance Mechanisms

Variables	Predicted Sign	Model 1 TOBIN Q	Model 2 FREE CASH FLOW (FCF)
INTERCEPT		-0.310 (-0.71)	0.503*** (22.48)
PROMHOLD	-	-0.0119 (-1.80)	-0.000397 (-1.21)
BOARDSIZE	+	0.0500*** (8.68)	-0.00343*** (-4.44)
INDIRECTOR	-	0.00923*** (15.22)	-0.000218*** (-6.62)
EXEDIRECTOR	-	0.0164*** (3.62)	-0.000417* (-2.39)
DUALITY	-	2.025*** (4.75)	-0.677*** (-33.94)
AUDITCOM	-	-0.156 (-1.64)	0.00874 (1.70)
NOREMUCOM	-	0.0734 (1.11)	-0.00177* (-2.02)
SHARECOM	-	-0.0867* (-2.13)	-0.00612*** (-17.88)
LEVERAGE	-	-5.031*** (-13.91)	-0.153*** (-21.74)
DEBTMAT	-	0.124 (1.40)	-0.0101*** (-7.13)
BANKDEBT	-	0.215 (1.60)	0.00145 (0.69)
FIRMSIZE	+	0.123*** (5.84)	0.00579*** (8.91)
r^2		.5464	.4600
N		1893	1893

*Heteroskedasticity, autocorrelation, and cross-sectional dependence consistent t-statistics are reported in the parentheses below parameter estimates: * p<0.05, ** p<0.01, *** p<0.001*

Source: Prowess Database

ANALYSIS AND DISCUSSION OF REGRESSION RESULTS

Ownership Concentration (PROMOHOLD): In model 1, the regression coefficient on PROMHOLD and TOBIN'S Q is insignificant but negative (-0.0119, t=-1.80). The insignificant coefficient rejects the empirical prediction that promoters holding and agency costs are inversely related and the high proportion of promoters' holdings in the total equity shareholding can lower the agency costs.

Model 2 establishes a negative but insignificant regression coefficient on PROMHOLD and FREE CASH FLOW (FCF) (-0.000397, t=-1.21), which rejects the research hypothesis promoters holding is inversely related to agency cost and promoters holdings. This contradicts with the arguments that large shareholders make more rigorous and efficient monitoring managerial decisions.

Board Size (BOARDSIZE): Table 4.3, Model 1 reveals that the regression coefficient on BOARDSIZE and TOBIN'S Q is positive and statistically significant (0.0500, t=8.68). The significant and positive coefficient on board size strongly support the empirical hypothesis that board size and agency costs are directly related; large boards are less superior in effectively monitoring the management and mitigating the agency costs. On the contrary, Model 2, alternate proxy for agency cost FREE CASH FLOW (FCF) establishes that the coefficient on BOARDSIZE and FREE CASH FLOW (FCF) is statistically significant and negative (0.00343, t=-4.44), which is inconsistent with the empirical hypothesis that board size and agency cost are directly related.

Independent Directors (INDIRECTOR): Model 1 on Tobin's Q disclose that the regression coefficient on the INDIRECTOR and TOBIN'S Q is statistically significant but positive (0.00923, t=15.22) as against the empirical prediction that independent directors and agency costs are inversely related. Model 2 on Free Cash Flow (FCF) reveals that coefficient on INDIRECTOR and FREE CASH FLOW (FCF) is negative and statistically significant (0.000218, t=-6.62). The significant coefficient strongly supports empirical hypothesis that independent directors and agency costs are inversely related. It appears that as a powerful governance mechanism, the representation of independent directors in the board has successful in dealing with the agency problems induced by conflict of interest between managers and stakeholders.

Executive Directors (EXEDIRECTOR): The regression coefficient on EXEDIRECTOR and TOBIN'S Q from Model 1 is statistically significant and positive (0.0164, t=3.62), which contradict with the empirical prediction that an inverse relationship exists between executive directors in the board and agency cost. Model 2 on Free Cash Flow (FCF) states that the coefficient on EXEDIRECTOR and FREE CASH FLOW (FCF) (-0.000417, t=-2.39) is negative and significant, which provides a weak support for the empirical prediction that executive directors and agency cost are negative related. The finding implies that the high representation of executive directors in the board has

not been able to monitor the management and limit the managerial discretion in decision-making.

CEO-Chairperson Duality (DUALITY): Model 1 shows that the regression coefficient on DUALITY (2.025, t=4.75) is statistically significant and positively related to TOBIN'S Q. The statistically significant and positive coefficient on DUALITY contradicts with the empirical prediction that the CEO and chairperson duality and agency costs are inversely related. Model 2 states that the statistically significant and negative relation between DUALITY and Free Cash Flow (FCF) (-0.677, t=-33.94) is consistent with the empirical prediction that separation of the role of CEO and chairperson is inversely related to agency cost. The separation of the roles of chief executive officer (CEO) and chairperson of the board affect the degree of independence of a board of directors and result to better board performance.

Audit Committees (AUDITCOM): Model 1 shows that he coefficient on AUDITCOM and TOBIN'S Q shows a negative but insignificant (-0.156, t=-1.64) relation between the agency cost and audit committee. Similarly, the regression coefficient on AUDITCOM and FREE CASH FLOW (FCF) (0.00874, t=1.70) in Model 2 is not significant but positive, which strongly repudiates the empirical hypothesis that audit committee and agency cost are inversely related. The regression specifications in both models establish that the audit committees have failed to act as an efficient and effective internal corporate governance mechanism.

Nomination and Remuneration Committee: Model 1 discloses that the coefficient on NOREMUCOM and TOBIN'S Q is positive and insignificant, (0.0734, t=1.11), which contradicts with the empirical prediction that nomination and remuneration committee is inversely related to agency cost. Similarly, the Model 2 also establishes insignificant and negative regression coefficient on NOREMUCOM and FREE CASH FLOW (FCF) (-0.00177, t=-2.02). The findings on agency cost proxies Tobin's Q and Free Cash Flow (FCF) disclose that constitution of nomination and remuneration committees could not mitigate the agency problems.

Shareholders' Committee (SHARECOM): Model 1 demonstrates that the regression coefficient on SHARECOM and TOBIN'S Q is negative and significant (-0.0867, t=-2.13), which provides a weak support for the empirical prediction that shareholders' committee is inversely related to agency cost. In Model 2 on Free Cash Flow (FCF), the regression coefficient on SHARECOM and FREE CASH FLOW (FCF) is negative and statistically significant (-0.00612, t=-17.88), which establishes that shareholders' committee is an effective internal corporate governance mechanism, which can effectively address the grievances of shareholders especially the minority shareholders.

Leverage (LEVERAGE**):** In Model 1, the regression coefficient on LEVERAGE and TOBIN'S Q is statistically significant and negative (-5.031, t=-13.91), which strongly support the empirical prediction that leverage is an effective governance mechanism which can reduce the agency cost. Similarly, the Model 2 also discloses that the coefficient on LEVERAGE and FREE CASH FLOW (FCF) (0.153, t=-21.74) is statistically significant and negative and strongly substantiate the argument that that agency cost and leverage are inversely related. The research findings prove that leverage is an external corporate governance mechanism which can discipline and monitor management and mitigate the agency problems in organizations.

Debt Maturity (DEBTMAT): Model 1 on the Tobin's Q states that the coefficient of regression on DEBTMAT and TOBIN'S Q is positive but insignificant (0.124, t= 1.40). The insignificant coefficient on debt maturity and Tobin's Q rejects the empirical prediction that debt maturity is inversely related to agency cost. Model 2 explicitly establishes that the regression coefficient on DEBTMAT and FREE CASH FLOW (FCF) (-0.0101, t=-7.13) is negative and statistically significant, which strongly supports the empirical prediction that debt maturity is an effective governance strategy.

Bank Debt (BANKDEBT): From the Model 1, the coefficient on BANKDEBT and TOBIN'S Q is insignificant and positive (0.215, t=1.60) as against the empirical hypothesis that bank debt is an effective defense against agency problems. Similarly, the positive and insignificant regression coefficient on BANKDEBT and FREE CASH FLOW (FCF) (0.00145, t=0.69) from Model 2, strongly reject the empirical prediction that bank debt is inversely related to agency cost. The research findings summarily reject the argument that the bank loans can significantly reduce the agency cost by closely monitoring the activities of borrowers.

Firm Size (FIRMSIZE): The coefficient on FIRMSIZE and TOBIN'S Q from Model 1 is statistically significant and positive (0.123, t=5.84) as against the empirical prediction that agency cost is inversely related to firm size. Similarly, the regression coefficient on FIRMSIZE and FREE CASH FLOW (FCF) (0.00579, t=8.91) is statistically significant and positive in Model 2, which rejects the empirical hypothesis that small firms are subjected to high level of agency conflicts as compared to large firms.

V. CONCLUSION

This research paper empirically examines the nature of relationship between agency cost and corporate governance mechanisms. The findings lead to the conclusion that the Indian companies are gradually moving towards compliance to the governance mechanisms. The regression results from Model 1 on the proxy of agency cost (TOBIN'S Q) establish that the governance mechanism such as board size, independent directors, executive directors, CEO-chairperson duality, and promoters' holdings failed to mitigate the agency conflicts. In Model 2, the regression results on agency cost (Free Cash Flow (FCF)) prove that board size, independent

directors, non-executive directors, CEO-chairman duality, shareholders' committee, leverage and debt maturity are important governance mechanisms which mitigate the agency problems in the organizations. Thus, the research findings lead to the conclusion that the corporate governance mechanisms, which have been introduced in the Indian corporate sector for bringing in transparency, integrity and accountability have partially successful to deal with the different manifestations of agency conflicts.

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