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Title: Corporate Governance and Debt Securities Issued in Brazil and India: A Multi-case Study

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Abstract

The corporate debt market tends to provide a funding alternative, but requires improvements in regulation and self-regulation. Therefore, corporate governance arises as a central element for reducing agency conflicts, and private debt market development. We analyze the corporate governance structure of debt issuers from Brazil and India through an index of Economic Commission for Latin America and the Caribbean (ECLAC). The results showed that the non-defaulted companies had higher scores and the corporate governance quality of the issuer tends to contribute to the fulfillment of its obligations.

Keywords: corporate governance; ECLAC index; Brazil; India.
JEL codes: G32; G34; L21; L25.

Introduction

The pecking order theory, initially developed by Myers (1984) in order to rank the sources of funds available to companies, shows that, after exhausting the initial option represented by the financing of retained resources, companies search for funding via debt (e.g., bank loans or bond issuance) – and, as a last option, offer shares publicly. Thus, among the financing alternatives fulfilled by third parties, corporate debt issuance stands as one of the most economical ways to obtain financing. Pour (2017) obtained results aligned to capital sources hierarchy envisaged by the pecking order theory, although the study pointed out a delay access, at least, for companies to the corporate debt market is caused due to agency conflicts.

Leal and Silva (2006); Lopes and Alencar (2010); Maurya and Kumar (2012) and Venkatraman and Selvam (2014) highlight that the debt market is one of the most critical components of the financial system in any economy simply because it operates as a leverage tool for both the public and private sectors. With respect to corporate financing needs, the corporate bond market is established as an alternative to bank financing for long-term funds, and, according to Mukherjee (2012), it represents a stable source of financing when the stock market is highly volatile and eventually reduces the overall cost of companies' capital.

Mukherjee (2012) reiterates the importance of the private debt market as leveraging alternative economies dominated by corporate finance exercised by the banking system, as this mode imposes limits on the growth

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