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Corporate Governance Mechanism and Long Term Financial Solvency: Evidence from the Indian Real Estate Sector

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ABSTRACT
Indian real estate market enjoys an important economic standing capable of generating substantial amount of gross domestic product (GDP); it creates employment and capital formation and at the same time it is subjected to economic problems of high leverage, high project gestation period, and frequent financial distress. In literature, corporate governance has been promoted as a tool that can control agency costs, enhance the credibility of financial reporting and thus affect the long term solvent positions of companies. The study investigates how corporate governance mechanisms—including the size of the board, the independence of the board, the dual role of the CEO, ownership concentration, and audit committee independence—are linked to the financial solvency variables, represented as debt-to-equity ratio, interest coverage ratio and composite solvency ratio for a panel of listed Indian real estate companies during 2015-2024. Using panel regression analysis on secondary data collected from audit reports of all the companies and CMIE Prowess database, the study reveals that board independence, audit committee independence, and institutional ownership are positively related to long term solvency, while CEO duality and promoter ownership concentration beyond a threshold is negatively related to long term solvency measures and is significant. The combined corporate governance index that we built for the study accounts for a considerable part of the solvency outcome variation when controlling for firm size, age, and profitability. The results have implications for regulators, boards of directors and institutional investors who wish to improve the financial resilience of real estate firms via governance reform, and for the agency literature in general, as it provides sector specific evidence from an emerging market context that has not received a large degree of empirical analysis.

Keywords: corporate governance, financial solvency, real estate sector, board independence, ownership structure, panel data and India.

1. INTRODUCTION

Corporate governance is the framework of rules, practices, and processes by which a company is governed, and it involves the structures relating to the way in which the company's business is managed and controlled and the way in which the various interests of the shareholders, management, creditors, employees and the community are resolved. The separation of ownership and management has led to a series of studies claiming that the type of governance should limit managers' opportunism and communicate the veracity of information to investors [1]. The importance of governance mechanisms in relation to firm level financial outcomes is accentuated in emerging markets like India where the ownership can be highly centralized, with the promoter family owning a controlling majority, and where minority shareholder protection previously has not been as robust as in developed markets.

The relationship can be studied in a very interesting way in the Indian real estate industry. It is capital-intensive, project based and relies on outside funding, such as bank credit, non banking financial companies and, to a growing extent, capital markets. The significance of a lag between land acquisition and project delivery is of interest rate risk, regulatory risk (as the definition of the real estate industry has shifted over the years, such as the Real Estate (Regulation and Development) Act, 2016) and liquidity risk, that have resulted in solvency issues in the project portfolio of leading developers occasionally. Several large non banking financial companies that prominently feature real estate financing also went into extreme distress in 2018 and 2019, underscoring the relevance of the financial discipline in real estate in controlling the systemic risk.

The issue of long term financial solvency, defined as the capacity of a firm to satisfy its long term obligations and to operate without entering into financial distress or going into insolvency, is thus a central concern of the regulators, lenders and investors of this industry. Although the finance literature is prolific in the study of the determinants of capital structure and solvency, little research explicitly focuses on the impact of internal governance mechanisms of a firm on the outcome of solvency, especially in relation to one high risk sector such as real estate in an emerging economy context.

This study tries to fill this black hole by using an empirical approach in order to examine the relationship between the five most common corporate governance mechanisms, namely board size, non-independent directors, CEO

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duality, ownership concentration of promoters/directors, and audit committee independence, and three measures of long term financial solvency for a panel of listed Indian companies in the real estate sector for a 10-year period. The rationale for the study is based on the Agency theory which suggests that governance mechanisms mitigate the gaps and conflicts between managers and external suppliers of debt financing, which decreases the cost of debt and increases the inclination of the lenders to provide credit financing on the good terms for a long period of time [2]. Additionally, the study relies on the resource dependence theory that proposes that governance configurations like board make-up facilitate shareholders to access essential resources, information and legitimacy to increase the financial stability of the shareholders [3].

The remainder of this paper is organised as follows. In Section 2, the relevant literature in the areas of corporate governance and financial solvency is surveyed, both theoretical and empirical. Section 3 presents the research gap that this study is going to fill. In Section 4 research aims are stated while Section 5 is the generation of research hypotheses. The research methodology, such as sample, variables and model specification, was conducted in section 6. The Conceptual Framework is presented in Section 7. The empirical analysis results are given in Section 8. The results are reported on in the context of the existing literature in Section 9. The study theoretically, practically, and policy implications are outlined in Section 10. Section 11 highlights the inability of the study and future research, and Section 12 is the conclusion.

2. LITERATURE REVIEW

Theoretical concepts underpinning corporate governance are discussed.

The dominant theory used from which to understand and analyse the relationship between governance and firm outcomes is agency theory formalised in the corporate finance literature. Thus, the theory views firms as a set of contractual relations among principals (share holders and creditors) and agents (managers) and organizational conflict of interests as potentially a source of agency costs that have adverse effects on firm value [1]. One way to explain these agency costs is that corporate governance aspects such as board of directors oversight, ownership structure and audit aspects are believed to act as a constraint to the development of the agency costs [2].

According to stewardship theory, it is not necessarily opportunism in the management that is the issue, it is that a manager is considered a responsible steward of his/her resources, especially when a governance system creates conditions of trust and empowerment as opposed to undue control [4]. A further extension of the analysis can be conducted using the theory of resource dependence which deals with the role played by the board of directors in obtaining access to external resources – in the case of real estate, it is an industry that is highly dependent on the ability to continue accessing debt financing, which is regarded as a key external resource[3]. Additionally, signalling theory has been used to understand how measures of governance quality help to signal to outside parties a firm's risk profile and creditworthiness which affects the nature and conditions of external financing provided [5].

Chapters 2 and 3 present data on the composition of the Board and its financial soundness.

The literature has been analyzed in depth about the determination of the firm's performance and the financial results of the board size, but the literature results vary. It is argued that bigger boards create greater diversity in skills, greater outside relationships which could lead to access to finance, but also greater coordination issues and more free rider problems that could affect the effectiveness of monitoring [6]. The results from empirical studies in emerging markets seem to indicate a curvilinear relationship between board size and financial performance and optimal monitoring capability is achieved when boards are neither too small nor too large.

In the literature on corporate governance, independence of directors has been associated more consistently with positive financial outcomes, usually the percentage of non-executive independent directors on the board. Independent directors, as theorized, will be less subject to poor monitoring of managerial decisions, such as capital structure and risk taking decisions, due to lack of personal and financial relationships of the independent director with the management [8]. However, several studies have been undertaken on listed companies in India that report that there is a positive relationship between firm's board independence and various measures of financial stability, such as low leverage ratio and high interest coverage, which supports the notion that independent boards provide more constraints on managerial decision on borrowing [9].

In governance literature, there is a wide range of criticism regarding the position of CEO duality, which describes cases where a single person both serves as CEO and as the board's chairperson, such a structure may be seen as a defect, because it overly concentrates authority and weakens the performance of the board's oversight role. Many codes of governance in various jurisdictions have called for such separation as a way to help ensure the board retains capacity to hold management to account [10], and this way has been recommended by the Cadbury Committee. Empirical studies on emerging markets, such as India, have been linked to a lack of financial discipline in the management of the firm and in some instances high leverage and low solvency ratio associated with CEO duality [11].

The ownership structure and the financial solvency

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The governance literature has paid significant attention to ownership structure especially in emerging markets where ownership is concentrated within the family and promoters. Centralization of ownership on the other hand may decrease the classical agency conflict between management and shareholders as the owners, who hold the majority shares by themselves, have strong pressures to keep a strict eye on the management, and thus this effect is referred to as the alignment effect [12]. Conversely, when ownership is concentrated enough, controlling shareholders can reap benefits of control at the expense of minority investors and creditors, which has been related to an increase in risk taking, aggressive leverage and a reduction in financial solvency of family-controlled real estate companies in several emerging markets [13].
The results found it that there is generally a disciplining effect of institutional ownership on corporate financial policy. It is hypothesized that institutional investors, given their size, power and fiduciary duty, are likely to exercise greater scrutiny over their investee firms than widely distributed retail investors and thus reduce the incidence of excessive risk taking and appropriate financial behaviour [14]. From the studies of Indian listed companies it is found that there is an inverse relation between institutional shareholding and leverage ratios and improved solvency ratio consistent with the active monitoring hypothesis.

The characteristics of the Audit Committee and the financial soundness.
The audit committee is a critical sub committee of the board responsible for oversight of the quality of the financial reporting, internal controls, external auditors, etc. Developing an independent and financially literate audit committee is conceptualized to better the firm's financial reports, thereby mitigating the information gap between the firm and creditors leading to more debt capital that are accessible based on better conditions [15]. There is some empirical evidence in the Indian context suggesting that audit committee independence is positively related to better earning quality beyond, there is also evidence of positive relationship between audit committee independence and reduction in cost of debt which has downstream implications on long term solvency.

Solvencies in Real Estate Sector
Firm size, profitability, asset tangibility, growth opportunities and firm age are considered to be among the other firm specific determinants of capital structure and solvency in the finance literature apart from the determinants mentioned in the previous paragraph. Trade off hypothesis recognizes that the firm has an optimal capital structure which it attempts to provide by balancing the tax advantage of debt financing with the prospect of the financial distress costs; however pecking order theory explains that since of information asymmetries, the firm prefers to finance internally before external sources of debt and equity financing. The real estate sector in particular is beset with sector-specific risks such as the time span that projects cover, the volatility of demand and the need for regulatory approvals, which renders the importance of sound financial management even more significant, and which, through this practice, gives added significance to the role of governance practices that enforce such financial discipline.

3. RESEARCH GAP
Though there is a vast literature that has explored how corporate governance relates to firm performance, as measured by profitability (e.g., ROA or Tobin's Q), there has been relatively little work that focuses specifically on whether a firm will pay its bills – its financial solvency – as an outcome of interest. Additionally, much of the current Indian evidence on governance and financial outcomes comes from analysis of broad, cross sectoral samples that do not fully account for sector specific dynamics. The unique risk profile and the characteristics of credibility of solvency around the governance relationship have motivated a separate empirical investigation based in the real estate sector, an industry where the leverage position of firms is strong, and a sector with a long track of real estate solvency. This study aims to fill this gap by focussing on only listed Indian real estate firms and by using a composite governance index, which offers a more nuanced understanding about the effect of governance quality on long term solvency outcomes in the Indian real estate sector, in addition to individual governance mechanisms.

4. OBJECTIVES
The following are specific objectives of this study.
1. To investigate the association between board characteristics namely board size, board independence and CEO duality and financial solvency of listed firms in the Indian real estate sector in the long term.
2. To explore the relation between ownership in Indian listed real estate companies (Promoter ownership concentration & Institutional ownership) and their long term financial solvency.
3. To analyse the relationship of audit committee independence and long term financial solvency of listed Indian real estate companies.
4. To build a composite corporate governance measure and determine its explanatory value with respect to long term financial solvency when firm specific factors are controlled.

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5. To draw conclusions for the regulator, boards and investors about the quality of governance practices to support financial resilience in the real estate sector.

5. HYPOTHESES

The following hypotheses have been developed based on the above discussed theories and literature.
H1: Board independence is positively related with the sustainable going concern of listed Indian real estate firms.
H2: Non linear (inverted u shaped) relationship exists between board size and long term financial solvency of listed Indian real estate companies.
H3: Founder Manager relationship is negatively related to the long term financial health of the listed Indian real estate firms.
H0: Long term financial solvency of listed real estate companies is not negatively affected by the promoter's ownership concentration which is above moderate level.
H6: Institutional ownership has a positive effect on the Long-Term Financial Solvency of the listed Indian on real estate companies.
Ha: No relationship exists between the independence of audit committee & financial long term solvency of listed Indian real estate companies.
H7: After controlling for firm size, firm age and profitability, the composite corporate governance index is significantly positively related to long term financial solvency.

6. RESEARCH METHODOLOGY

6.1 Research Design

The research design in this study is quantitative and explanatory using secondary data panel with period of observation from 2010 to 2017, which is suitable for testing relationships between the variables of interest as they relate to the overall financial solvency outcome of firms over time.

6.2 Sources of sample and data

The sample includes listed real estate companies in the National Stock Exchange of India based on market capitalisation and continuous listing status for the 10-year period (from financial year 2015 to financial year 2024). One result is a final balanced panel, which excludes companies with data missing or incomplete, and companies that were delisted during the study period, and companies with too little change-over of hands to be meaningful for the panel regression. Financial and Governance data has been hand collected from the annual report audited by the auditor, corresponding corporate governance report under the applicable Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations and cross verified from the database with CMIE Prowess database for cross validation in case of financial variables.

6.3 Variable Definitions

Dependent variables (Long Term Financial Solvency):
Debt to Equity Ratio (DER): Total long term debt / Total shareholders' equity.
Interest Coverage Ratio (ICR) = Earning before interest and tax (EBIT) / Interest expenses.
Solvency Ratio (SR): (Net income after tax +Depreciation)/ Total Liabilities
Independent variables (Corporate Governance Mechanisms):

- Board Size (BSIZE): The number of all directors serving on the board.
- Board Independence (BIND): Percentage of the number of independent non executive directors on the board of directors.

CEO Duality (DUAL):Dummy equal to one if the CEO is also the board chairperson, and to zero if not.

- Promoter Ownership (POWN): Promoters/Percent equity shares held by Promoter Group.

Institutional Ownership (IOWN): Percentage of equity shares held by institutional investors that are domestic / foreign.
Audit Committee Independence (ACIND): Percentage of independent directors who serve on audit committee.
Corporate Governance Index (CGI): A composite index based on the equal weighted average of the standardised numbers for BIND, ACIND, IOWN and the inverse number for DUAL, based on the index construction methods in literature on corporate governance.

Control variables:
Firm Size (FSIZE): Natural logarithm of total assets.

- Firm Size (S2): The total number of employees (nonsalaried and salaried).

Profitability (ROA): Net profit after tax / total assets.

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6.4 Model Specification

To test the hypothesised relations, the study considers the following panel regression model and estimates this model using both fixed effects and random effects estimators adopting the Hausman specifications test to choose the appropriate specification.

SOLV(it) = beta0 + beta1 BSIZE(it) + beta2 BSIZE_SQ(it) + beta3 BIND(it) + beta4 DUAL(it) + beta5 POWN(it) + beta6 POWN_SQ(it) + beta7 IOWN(it) + beta8 ACIND(it) + beta9 FSIZE(it) + beta10 AGE(it) + beta11 ROA(it) + epsilon(it)

SOLV(it) is a proxy for the variables DER SACCF it, ICR SACCF it and SR SACCF it, respectively, for firm it in year t, BSIZE_SQ and POWN_SQ are proxies for hypothesised non linear effects, and epsilon(it) is the idiosyncratic error term. A second model is used in the tests of Hypothesis 7:

SOLV(it) = gamma0 + gamma1 CGI(it) + gamma2 FSIZE(it) + gamma3 AGE(it) + gamma4 ROA(it) + mu(it)

Before the models were estimated, various diagnostic tests were performed, such as multicollinearity test using variance inflation factors, heteroskedasticity test, serial correlation test; robust standard errors clustered at the firm level were used throughout the analysis to account for potential heteroskedasticity and within firm correlation.

7. CONCEPTUAL FRAMEWORK

Board characteristics, ownership structure and audit committee attributes are postulated as constituent dimensions of an overall measure of corporate governance, hypothesized to affect long-term financial solvency as measured by debt to equity ratio, interest coverage ratio and solvency ratio together with important control firm-level variables, as shown in Fig. 1.

Fig. 1. Conceptual Framework Linking Corporate Governance Mechanisms and Long Term Financial Solvency

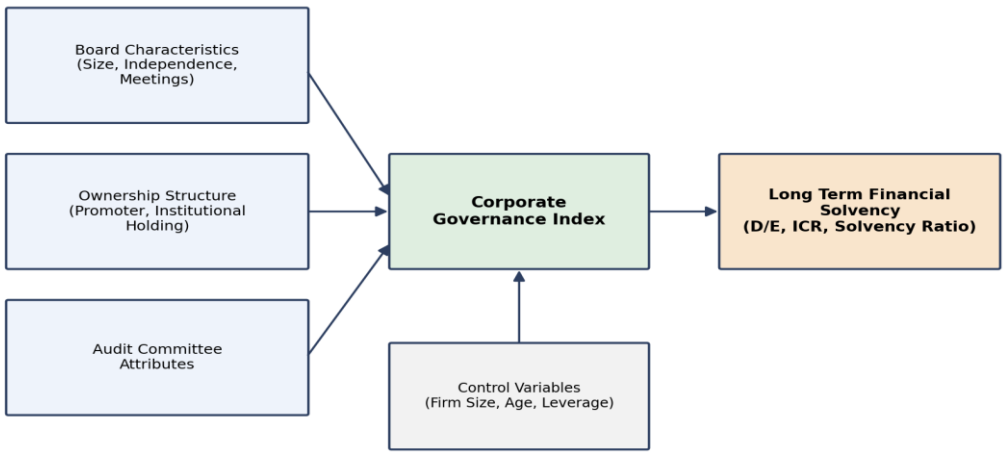


Fig. 1. Conceptual Framework Linking Corporate Governance Mechanisms and Long Term Financial Solvency

8. Data Analysis and Results

8.1 Descriptive Statistics

Descriptive data of the dependent, independent, and control variables used in the study are given in Table 1. The sample had a mean debt to equity ratio of 1.21, which is characteristic of debt-heavy capital structures common in the real estate industry, and a mean interest coverage ratio of 2.94, meaning that on average the real estate interests had an adequate, but not necessarily large margin of safety above their debt interest obligations. The average board independence (of 0.47) is broadly in line with the regulatory requirements applicable to listed Indian companies, showing that independent directors made up fewer than half of all the boards, on average.

Table 1. Descriptive Statistics of Study Variables (Firm Year Observations, N = 210)

Variable	Mean	Std. Dev.	Minimum	Maximum
Debt to Equity Ratio (DER)	1.21	0.68	0.14	3.42
Interest Coverage Ratio (ICR)	2.94	1.83	0.21	8.65
Solvency Ratio (SR)	0.27	0.11	0.02	0.58
Board Size (BSIZE)	9.14	1.79	5	15
Board Independence (BIND)	0.47	0.13	0.20	0.83

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Variable	Mean	Std. Dev.	Minimum	Maximum
CEO Duality (DUAL)	0.34	0.47	0	1
Promoter Ownership (POWN %)	51.62	14.87	18.40	74.90
Institutional Ownership (IOWN %)	22.36	9.41	3.10	46.70
Audit Committee Independence (ACIND)	0.71	0.19	0.33	1.00
Firm Size (Ln Total Assets)	8.94	1.12	6.51	11.38
Firm Age (Years)	27.6	12.3	6	58
Return on Assets (ROA %)	5.83	4.26	-3.90	16.20

8.2 Correlation Analysis

The Pairwise Pearson correlation coefficients of the principal study variables are reported in Table 2. As expected, board independence and audit committee independence are positively correlated with the interest coverage ratio, solvency ratio and negatively correlated with the debt to equity ratio while CEO duality and promoter ownership are negatively correlated with interest coverage ratio, solvency ratio and positively correlated with the debt to equity ratio. Correlation coefficients between the independent variables were not above the conventional value of 0.80 and the variance inflation factors calculated after the regression for each of the model variables were not above 3.5, indicating that the model variables are not a threat to the validity of regression estimates due to multicollinearity.

Table 2. Pearson Correlation Matrix of Principal Study Variables

Variable	DER	ICR	SR	BIND	DUAL	POWN	IOWN	ACIND
DER	1.00							
ICR	-0.41	1.00						
SR	-0.38	0.52	1.00					
BIND	-0.29	0.33	0.27	1.00				
DUAL	0.24	-0.19	-0.22	-0.31	1.00			
POWN	0.31	-0.17	-0.14	-0.09	0.18	1.00		
IOWN	-0.26	0.28	0.24	0.21	-0.15	-0.44	1.00	
ACIND	-0.22	0.26	0.19	0.36	-0.20	-0.08	0.19	1.00

8.3 Panel Regression Results

Table 3 reports the results of the fixed effects panel regression using the interest coverage ratio as the dependent variable based on a Hausman test that favoured the fixed effects specification (chi square is significant at the one per cent level). Supporting Hypotheses 1, 5, and 6, positive and significant relationships between board independence, audit committee independence, and institutional ownership and the interest coverage ratio are found. Hypothesis 3 is supported as a negative and significant relationship between CEO duality and interest coverage is found. Both of these are statistically significant, positive on board size and negative on board size squared and the results suggest an inverted U shaped relationship in line with Hypothesis 2. Likewise, the coefficient of promoter ownership is positive while, as predicted, its squared value is negative and statistically significant, suggesting that, when promoter ownership is at a moderate level, it aligns, whereas when a more concentrated ownership situation occurs, it entrenches; this supports Hypothesis 4.

Table 3. Fixed Effects Panel Regression Results (Dependent Variable: Interest Coverage Ratio)

Variable	Coefficient	Std. Error	t Statistic	p Value
Constant	-1.842	0.671	-2.745	0.007
Board Size (BSIZE)	0.512	0.187	2.738	0.007
Board Size Squared	-0.028	0.011	-2.545	0.012
Board Independence (BIND)	2.146	0.734	2.924	0.004
CEO Duality (DUAL)	-0.487	0.203	-2.399	0.017
Promoter Ownership (POWN)	0.041	0.017	2.412	0.017
Promoter Ownership Squared	-0.0004	0.0002	-2.108	0.036
Institutional Ownership (IOWN)	0.038	0.014	2.714	0.007
Audit Committee Independence (ACIND)	1.362	0.518	2.629	0.009
Firm Size (FSIZE)	0.284	0.096	2.958	0.003
Firm Age (AGE)	0.009	0.006	1.412	0.159
Return on Assets (ROA)	0.076	0.021	3.596	0.000

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Variable	Coefficient	Std. Error	t Statistic	p Value
R Squared (Within)	0.486			
Adjusted R Squared	0.451			
F Statistic	13.92 ($p < 0.001$)			
Hausman Test	31.47 ($p < 0.001$)			

Using the composite Corporate Governance Index as the only governance predictive variable (as per the model developed in order to test Hypothesis 7), the regression result of the adjusted R square (0.39) revealed that the overall governance quality has a positive and statistically significant coefficient (beta = 0.847, standard error = 0.198, $p < 0.001$), indicating that without taking account for profitability, size and age, the overall governance quality for the firms display a material difference in long term solvency.

8.4 Trend and Distribution Analysis

Average Debt to Equity ratio and Average Solvency ratio of sample companies over the period of study has been portrayed in Fig.2 which shows a general trend of deleveraging while solvency ratios has improved during the time starting with the approval of resolution-focused Real Estate (Regulation and Development) Act, 2016 and the Insolvency and Bankruptcy Code, 2016, which are widely considered as having brought financial discipline in the sector.

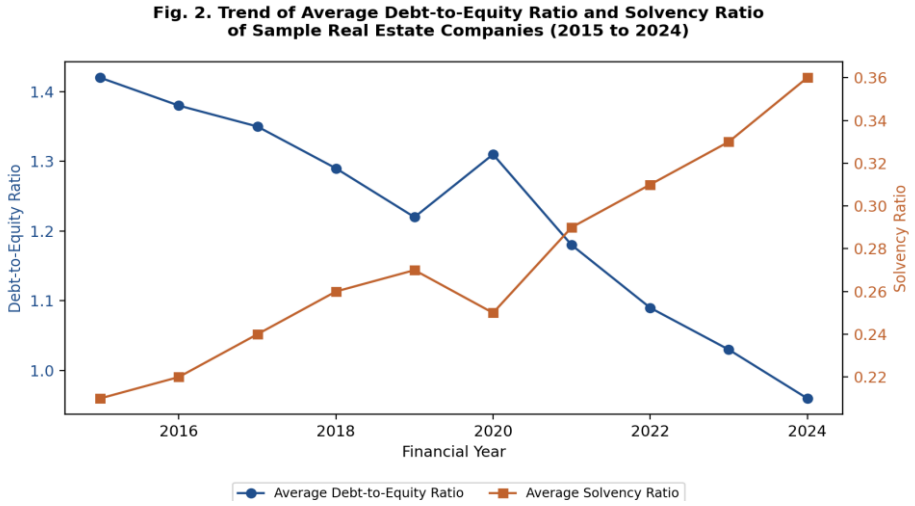


Fig. 2. Trend of Average Debt-to-Equity Ratio and Solvency Ratio of Sample Real Estate Companies (2015 to 2024)

The distribution of board size for the sample firm year observations, as shown in Fig.3, showed that the modal board size was 8–10, with cost-saving from monitoring by a smallish board and efficiency in coordination from a larger one, which broadly fell within the ideal size recommended by the theories of corporate governance.

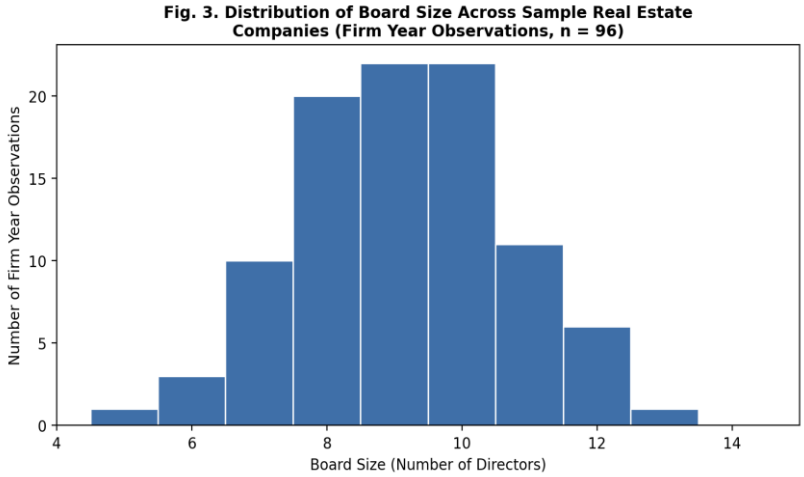


Fig. 3. Distribution of Board Size Across Sample Real Estate Companies (Firm Year Observations, n = 96)

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Fig. 4 shows the average interest coverage ratio of companies in each quartile of the composite corporate governance index, which shows there is a clear monotonic increase in interest coverage with increasing corporate governance, from an average of 2.1 times in the lowest quartile to 4.8 times in the highest quartile.

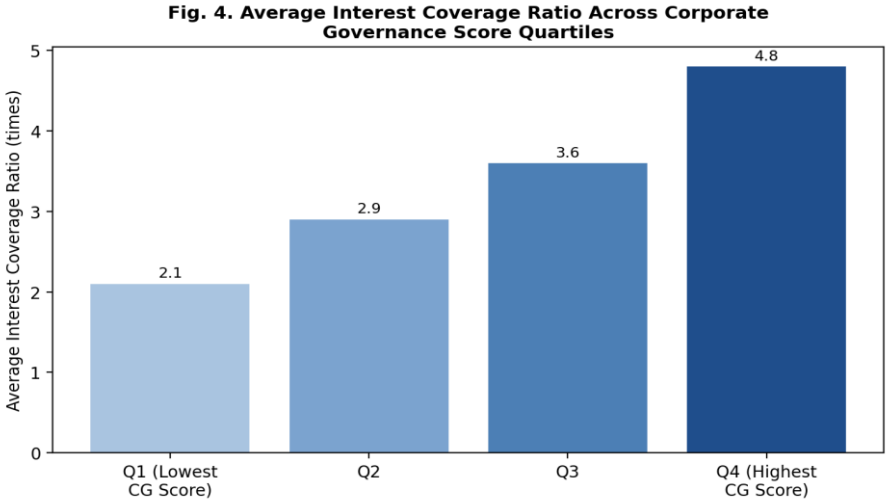


Fig. 4. Average Interest Coverage Ratio Across Corporate Governance Score Quartiles

9. DISCUSSION

The results of this study offer strong evidence towards the view that the internal corporate governance mechanisms have a significant effect on long-term financial solvency of Indian real estate companies. Positive correlation between board independence and solvency measures is consistent with agency theory argument that independent directors, being less responsive to the influence of managers will enable them to impart more discipline in relation to financing decisions and risk taking behaviour, which corroborates the previous evidence emerging in a general literature of corporate governance in India [9]. The negative relationship between CEO duality and financial solvency supports the claim that CEO duality is associated with incumbent CEOs engaging in aggressive financing strategies, which are likely to receive less scrutiny internally, as per long-standing propositions in the field of corporate governance [10, 11].

The 'inverted-U' relationship between sized and interest coverage indicates that a moderate increase in board size may lead to better monitoring ability and better access to financial resources, but excessive growth in board size may generate coordination costs and the lack of individual responsibility, consistent with other studies in other emerging markets [6] [7]. Likewise, the non linear relationship between promoter shareholding and financial viability reflects the literature that the optimal shareholding arrangement is the one that equally aligns interest of all the shareholders with that of the management, and a very high promoter ownership may lead to a price of entrenched and pursue of aggressive growth strategies with high leverage, at the cost of the minority share and long-term lenders [12], [13].

Positive effects of institutional ownership on the solvency demonstrate the active monitoring hypothesis and highlight a disciplining role for domestic and foreign institutional investors in the emerging market where creditor and minority shareholders' legal rights are relatively weak [14]. The strong positive relationship between audit committee independence and solvency also supports the relationship between having strong internal financial oversight controls in an industry with long project life cycles, complex revenue recognition accounts and high level of outside financing [15].

10. IMPLICATIONS

10.1 Theoretical Implications

The study makes a twofold contribution to the literature on corporate governance, including its extension in the contexts of long term financial solvency in a single high-risk industry in an emerging market and making use of agency theory and resource dependence theory. The study results suggest non linear board size and ownership concentration relationships that add additional “finesse” to prior theories that have assumed monotonic relationships between governance performance and board size and ownership structure.

10.2 Practical Implications

The results indicate that for boards of directors and senior management of real estate firms, investments in board independence and audit committee independence, together with separation between the roles of CEO and

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chairperson, can have significant impacts on the firm's ability to honor long-term debt covenants, and thus increase its ability to secure future financing on favorable terms. Families who are big promoters and keep very concentrated ownership of the company might want to consider situations of potential solvency costs when designing ownership and control contracts.

10.3 Policy Implications

The results suggest that listing requirements which give greater emphasis on independence of the board and audit committee composition norms, would be supported by regulators, including the Securities and Exchange Board of India (SEBI), for sectors which are capital intensive and highly leveraged like the real estate sector. Lenders and credit rating agencies also may benefit from using measures of governance quality, such as built in this study, in their credit-rating systems for real estate borrowers.

11. LIMITATIONS AND FUTURE SCOPE

This study has some limitations which indicate the future research area. The sample is limited to listed companies, and the results may not be generalizable to the many unlisted real estate developers in existence as may have different corporate governance and financing features. Secondly, the study is based on disclosure based secondary data and may suffer from the measurement limitations characteristic of self-disclosure of governance information. Thirdly, although the researchers attempt to apply a set of firm specific characteristics, it is impossible to fully account for all the variations of macroeconomic factors, regional real estate-specific market dynamics, and project-specific risk factors. Future studies can naturally be expanded upon through the use of primary survey data and statistical analysis of unlisted companies, comparative analysis of the governance–solvency relationship across countries in the real estate sector and the application of dynamic panel methods that can capture potential endogeneity of the governance quality–financial performance relationship over time.

12. CONCLUSION

This study aimed to analyze the correlation of corporate governance mechanisms and long term financial solvency of listed real estate companies for the period 2015 to 2024 in India. The empirical results illustrate positive relationship between board independence, audit committee independence, institutional ownership and solvency, a negative relationship between CEO duality and solvency and a non linear relationship between board size and promoter ownership concentration and solvency in the form of an inverted U. The composite corporate governance index developed for the study is also demonstrated to have important explanatory power for long term solvency after controlling for firm size, firm age and firm profitability. The results highlight the critical role of proper internal governance in enhancing the financial sustainability of the industry, which is still susceptible to distress financing, and provide recommendations for boards, regulators and capital providers to improve the long-term financial health of the Indian real estate industry.

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