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Impact of Corporate Governance on Capital Structure

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Abstract:
This study aims to investigate the influence of corporate governance on the capital structure of non-banking firms in Pakistan. The research sample comprises thirty prominent firms that are either situated or functioning in Pakistan and are registered on the Karachi Stock Exchange (KSE). We employed the ordinary least squares regression technique to ascertain the nature of the correlation between corporate governance characteristics and the capital structure of the business. Although Pakistani companies' corporate governance systems are not highly developed, the analysis demonstrates that they do exert a significant influence on the organizational structure of enterprises to some degree. The findings suggest a considerable inverse correlation between the debt ratio and board composition, CEO duality, ownership concentration, and profitability. This relationship has statistical significance. Therefore, it is clear that any increase in these variables could lead to a decrease in the debt ratio. The debt ratio exhibits a positive correlation with director salary, tangibility of assets, and size. Additionally, the association between the debt ratio and board size is both positive and significant. Nevertheless, the association between board size and debt ratio is not significant.

Keywords: Corporate governance, Capital structure, Agency theory, Financial leverage, Firm performance

Introduction

Governance encompasses the activities of organizing, regulating, and guiding, whereas "corporate" pertains to an entity that is characterised as a cooperative or collaborative association of persons working together to establish a larger group or organization. Consequently, "corporate governance" pertains to the procedure of overseeing, administering, guiding, and regulating the whole framework and activities of a company. An organization utilizes a set of rules, regulations, and standards to strengthen and improve the operation of its regulatory bodies, including directors, managers, and shareholders. A common concern is that adopting strong governance standards may positively affect the financial framework of the organization. Corporate governance measures enhance the efficiency and effectiveness of an organization by ensuring sufficient monitoring and control. Consequently, these measures are crucial for ensuring that the goals of shareholders and management are in harmony and for minimizing disputes arising from differing interests. According to Shleifer and Vishny (1997), employing this method enables the company's capital provider to ensure a favorable return on their investments. Companies with a robust governance structure are more likely to secure loans from investors due to the protection of shareholders' interests, more transparency, and less conflicts of interest. According to Core et al. (1999), companies that have inadequate governance policies experience a higher number of agency difficulties. This is perhaps because managers at those organizations might readily get personal advantages as a consequence of the inadequate corporate governance system. Moreover, it motivates management to undertake measures that are advantageous to shareholders, leading to a rise in shareholder prosperity. Claessens et al. (2004) state that excellent governance confers benefits to a company by facilitating access to external finance, offering favorable treatment to shareholders, and reducing the cost of capital. In the context of growing economies such as Pakistan, enhancing corporate governance systems is of utmost importance. This is due to the fact that an improved governance framework results in a more robust legal and financial position. Moreover, it facilitates enterprises in obtaining superior ratings from rating agencies, hence simplifying their revenue generation process. The concept of corporate governance is still very nascent. Many developing countries are actively prioritizing the enhancement of corporate management and administration to establish a more efficient governance structure. Businesses and corporations were initially established based on the values of trust, openness, and responsibility. Conversely, the necessity to establish and modify corporate culture arose due to a substantial expansion in business scale, escalating intricacies, individual insolvency, crises, and fraudulent activities within diverse organizational systems and structures. Consequently, this has resulted in the establishment of several regulations, laws, and principles with the objective of enhancing the organization and functioning of businesses to prevent financial crises and regulate the financial industry. The World Trade Organization (WTO) and the International Finance Corporation (IFC) are actively promoting the dissemination of this concept by establishing and overseeing these practices in client nations. The primary objective of this research is to gain a deeper understanding of the comprehensive influence of corporate governance on a company's performance and capital structure. Several theories and methodologies have been developed to study the factors that enhance governance structure and evaluate its influence on the capital structure. However, there is a scarcity of studies undertaken in Pakistan to explore this topic. Conversely, this subject is becoming increasingly popular due to business failures like Mehran Bank and Taj Company, as well as other organizational catastrophes resulting from inadequate governance norms. The study was conducted using a sample of thirty non-financial companies that were listed on the Karachi Stock Exchange from 2009 to 2011. This article provides a concise analysis of the corporate governance standards employed in Pakistan, together with the listing guidelines established by the Securities and Exchange Commission of Pakistan (SECP). The following section comprises an analysis and evaluation of the pertinent literature, methodologies, and overall discoveries. The concept of corporate governance is relatively nascent in the business culture of Pakistan, but it is rapidly gaining traction. The prevalence of this acceptance is increasing. Pakistan's corporate governance framework is considered significantly weaker when compared to that of other developed and developing countries. Conversely, the government is presently implementing measures to enhance and broaden the nation's business infrastructure. Over time, as businesses expand, the intricacy of commercial operations also increases. Consequently, individuals have come to acknowledge the need of corporate governance in ensuring financial stability and organizational framework. At first, there was widespread opposition to corporate governance principles because of worries regarding adherence and costs. Over time, people have increasingly recognised the significance of corporate governance. There are a significant number of companies in Pakistan that are reluctant to embrace these methodologies. The World Bank and the International Finance Corporation have compiled a diverse range of publications on corporate governance, encompassing assessments and insights on the implementation of corporate governance laws and principles across different nations. ROSC, an abbreviation for Reports on the Observation of Standards and Codes, refers to a collection of numerous reports. By using this research, they examined the organization's susceptibilities, legal formation, framework, and deficiencies to create governance ways that are more efficient. The Organization for Economic Cooperation and Development (OECD) introduced the concept of corporate governance. ROSC conducted an evaluation of corporate governance processes in accordance with the OECD's recommendations. The SECP in Pakistan implemented early structural enhancements and established functional governance standards. In 1998, the Institute of Chartered Accountants of Pakistan (ICAP) took initial steps to enhance the governance system. As a result, in March 2002, the Security and Exchange Commission of Pakistan (SECP) introduced corporate governance principles. Publicly traded firms are obligated to produce an additional report, in addition to their annual reports, as per the rules of corporate governance. This report aims to showcase the company's adherence to the regulations. Hence, to guarantee the firm's incorporation in accordance with corporate governance rules, auditors will assess and authenticate these reports. The International Corporate Governance Association (ICAP) and the Pakistan Institute of Corporate Governance (PICG) are actively engaged in raising awareness in Pakistan regarding the significance of corporate governance. The nonprofit organization PICG is also actively involved in spreading this ideology across the region. The management training provided by these companies enhances their initiatives to reinforce the framework and operation of corporate governance. Furthermore, they administer yearly surveys on corporate governance procedures in Pakistan to evaluate the organization's overall condition. In addition, the State Bank of Pakistan is actively involved in the development and implementation of an effective governance system. In addition, JCR-VIS is a credit rating agency that has obtained approval from both the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). It participates in the evaluation of corporate governance, which involves analyzing the company's adherence to established standards of good governance. PACRA, or Pakistan Credit Rating Agency, is also engaged in the rating process, which encompasses elements like as size, board composition, credentials, annual meetings, and the number of executive directors, among other considerations. Essentially, this perspective is increasingly being acknowledged.

Literature Review

Researchers in numerous other developed nations have conducted numerous studies in the past to examine the influence of corporate governance on the financial structure of organizations. Experiential research focuses on the effects of effective governance on an organization's overall performance, as well as the impact of ownership structure on the company's value. This is achieved by a comprehensive analysis of relevant literature, as demonstrated by Claessens (2002). Graham, Harvey (2001), and Litov (2005) assert that corporate governance is intrinsically linked to the capital structure and financing choices of a corporation. Liao (2013) states that good governance enables organizations to efficiently manage their information, leading to a decrease in the overall cost of capital. Consequently, this facilitates the company in making effective and prompt decisions regarding its capital structure. However, it should be noted that this is a very recent finding in Pakistan. The existing body of literature presents diverse perspectives on the influence of corporate governance on capital structure. Academic research suggests that implementing corporate governance principles has a beneficial effect on a company's capital structure. However, there are opposing views among scholars who argue that corporate governance has a detrimental impact on a company's performance. Claessens et al. (2002) contend that implementing effective corporate governance standards can enable an organization to gain the confidence of investors, resulting in enhanced capital accessibility and reduced debt expenses. Block owners possess a greater capacity to exert influence over management decisions. They possess the authority to enforce management to make decisions that prioritise the welfare of shareholders and contribute to the overall prosperity of shareholders. "Mehran (1992) asserts that there is a significant and positive correlation between the ownership structure by the largest investor and the debt ratio." "This relationship is characterised by a positive and significant correlation." However, the correlation between the long-term debt ratio and this connection is not sustained. In their 1976 study, Jensen and Meckling found that the ownership structure plays a role in mitigating agency conflicts, therefore matching the interests of shareholders and managers. Due to significant conflicts of interest between shareholders and managers, the corporate governance mechanism of the organization is frequently insufficient. According to Fosberg (2004), there is a direct correlation between the number of shares owned by block holders in a firm and the overall amount of debt in its capital structure. However, there is an inverse relationship between the number of block holders and the total number of shares owned by them in the organization. Measurements Augmenting the number of board members enhances the efficacy of management and oversight. As the primary governing body responsible for making decisions for the company, the board must operate with efficiency. According to Pathirawasan (2013), managers have the primary responsibility for influencing a company's financial performance. Managers have the responsibility of making various corporate decisions and formulating plans. They also handle asset, leverage, and capital management to ensure the company's profitability. Cadbury (1992) asserts that the composition of the board of directors is a crucial element of corporate governance that enhances the achievement of the organization. In their 2003 publication, the authors contend that a larger board size may more effectively scrutinize the organizational function and offer superior management and supervision of the company, owing to the enhanced abilities and more knowledge. A larger board size can enhance the organization's capacity for effective management and oversight. Greater-sized boards provide a distinct edge over smaller-sized boards when it comes to achieving successful monetary acquisition. However, Berger et al. (1997) discovered a negative correlation between the size of the board and the level of leverage. In their study, Bopkin, Arko, and Arbour (2009) investigated Ghanaian enterprises and discovered a significant and favorable correlation between the board of directors' size and the capital structure of the company. According to Yermach and Ofek (1997), firms with a greater number of directors tend to have lower levels of leverage. This is due to the correlation between larger boards of directors and the increased pressure they exert on management to minimize debt, so mitigating the risk borne by investors. Furthermore, the CEO also fulfils the role of the chairman of the board. The probability of assigning both roles to a single individual is high, which will result in detrimental effects on the overall framework and adversely affect the company's prosperity. Dividing the tasks for choice control and decision management has the potential to decrease the occurrence of disagreements across agencies. Fama and Jensen (1983) argue that the roles of CEO and Chairman should be distinct. The chairman holds the ultimate authority to make decisions, while the CEO is responsible for overseeing the company's day-to-day operations. Nevertheless, dualism possesses the capacity to enhance physical power while also enhancing total cognitive discernment. The Chief Executive Officer (C.E.O.) asserts, according to Boyd (1995), that duality confers upon the CEO greater power, authority, and control. The literature on CEO duality encompasses a diverse array of perspectives. According to Pfeffer and Salanick (1978), directors that possess superior judging ability would be more effective in overcoming organizational inactivity and sluggishness, and would be more capable of successfully implementing strategic decisions. According to Brickley et al. (1997), duality and separation offer both advantages and disadvantages, and hence, there is no strong singular connection between duality and capital structure. This is due to the fact that dualism proves advantageous and lucrative for certain groups, while proving ineffectual for others. The composition of the board shall consist of both independent directors and directors selected by the board, including both executive and non-executive directors. Independent or external directors have the responsibility of supervising the behavior of the executive director and ensuring that they do not take advantage of the rights of shareholders. Weisbach (1988) argues that the presence of both independent and outside directors in an organization leads to enhanced communication and collaboration. Study of top-level management. Conversely, the literature presents a wide range of viewpoints on the topic. Some scholars' research indicates an inverse correlation between leverage and board composition. Managers tend to favor circumstances with lower levels of leverage when the firm has well-established corporate governance processes. More precisely, when there is proper and efficient supervision, the rights of shareholders are not taken advantage of, and managers are more inclined to avoid taking risks. Kyereboah, Coleman, and Biekpe (2006) discovered a direct correlation between a company's debt ratio and the proportion of directors serving on its board of directors. Compensation plays a crucial role in incentivizing managers to make decisions that contribute to the maximization of shareholder wealth. An agency conflict arises due to diverging interests between shareholders and management. Compensation is offered to mitigate agency conflicts and incentivize management to prioritise the shareholders' best interests. The compensation of managers should be sufficiently attractive to ensure that they have the necessary leverage to maximize shareholder wealth. In Abdullah's (2006) study on Malaysian firms, it was found that there is an inverse correlation between director's salary and return on assets (ROA). In their study, Wen et al. (2002) found that there is a negative and statistically insignificant relationship between an organization's capital structure and director remuneration. Mian et al. (1996) discovered a significant correlation between director remuneration and the capital structure of the company, indicating a positive association. In their study, Wen et al. (2002) discovered a negative correlation between the capital structure and the pay of directors. Additional control factors considered in this analysis encompassed profitability, as assessed by return on assets (ROA), asset tangibility, and other comparable attributes. Typically, more profitability results in a reduced debt ratio. Typically, firms that are more profitable allocate their resources to a larger number of productive endeavors, so facilitating the generation of cash.

Research Design

The objective of this study is to examine the influence of corporate governance on capital structure and establish a correlation between the two. This study examines the corporate governance characteristics that impact the capital structure of firms listed on the KSE during the period from 2009 to 2011. The sample comprises thirty non-financial enterprises. A significant proportion of it relies on secondary data, particularly the annual reports obtained from the enterprises included in the sample. Extensive examination of both local and international literature is being conducted to establish the foundation for this study. This study employs a combination of quantitative and qualitative methods, utilizing aggregated data. The discourse surrounding corporate governance principles, norms, and laws is expressed in qualitative terms; however, capital structure indicators are given in a quantitative manner. By implementing a lag function, the sample size is decreased to sixty from the initial ninety observations obtained from thirty unique enterprises spanning a period of three years.

Variables

This study encompasses a total of eight distinct variables. The study incorporates various independent variables, such as the dimensions of the board, its composition, the ownership structure, the remuneration of directors, and the existence of a dual CEO. The debt ratio is a variable that is dependent on other factors and is utilised in the computation of capital structure. The control variables included in this study consist of profitability and asset tangibility.

Regression Model

The study is conducted using aggregated data collected from thirty distinct enterprises at different time intervals. Panel data is estimated using the ordinary least squares method of the regression model. The utilised model adhered to the following structure:

$$DRit = \beta o + \beta 1OCit + \beta 2BSit + \beta 3BCit + \beta 4CDit + \beta 5DRit + \beta 6PFit + \beta 7TAit + \epsilon$$

In this case,

"Bo" refers to a constant number, whereas "β" refers to the coefficient connected with the variable.

the debt ratio of firm 1 is represented by the sign DRit.

The symbol t represents a firm's ownership concentration during a specific time period. This level is known as OCit. The size of a company's board of directors during a specific time period, denoted by the letter t, is known as BSit. The phrase "BCit" refers to the makeup of a company's board of directors at a specific point in time, as represented by the letter t. CDit refers to a company's Chief Executive Officer (CEO) duality throughout a specific time period. The director's salary during a specific time period, denoted by the letter t, is referred to as the director's remuneration at that time. The variable PFit represents a company's profitability over a given time period, which is denoted by the letter t. TAit represents the tangibility of a firm's asset during a specific time period, denoted as t. The symbol Є refers to the error term

Results and Discussion

The result of this study is drawn by analyzing the data obtained from 30 companies listed in stock exchange. The data is collected from the annual reports of these companies. The consequence is drawn by applying regression model, t statistics, covariance and correlation analysis and descriptive statistics of all the variables used in this study. The final result obtained by analyzing the variables is given in the following section.

Descriptive Statistics

Table 2 presents the descriptive statistics for the dependent and independent variables utilised in this study. The average board composition of Pakistani firms is roughly 57%, which is considered a reasonable proportion when compared to board compositions in other nations. This is based on descriptive statistics. As per the findings of Singh and Kumar (2012), the representation of women on the boards of directors in Indian firms stands at 70.9%. According to Berger et al. (1997), around 63% of American firms have directors who are not affiliated with the company. Based on the CEO's descriptive statistics, the CEO also serves as the chairman of the board only 15% of the time. This indicates that in 85% of instances, the CEO and chairmen hold separate positions. In order to assess CEO duality, an equation incorporates a dummy variable. The mean board size is 0.91. Pakistani businesses exhibit a debt ratio of approximately 55%. Pakistani companies frequently accumulate higher levels of debt compared to their counterparts in other developing nations, suggesting a greater dependence on debt financing rather than equity financing. Based on the findings of a survey conducted by Joseph, Sheridan, and Garry (2012), Pakistan, Portugal, Brazil, South Korea, and Indonesia have the highest debt percentages. Conversely, Europe, the United States, Turkey, Canada, and Australia exhibit among of the lowest debt ratios. Previous research indicates that enterprises in developing countries frequently accumulate higher levels of debt compared to those in established economies. The director's compensation constitutes approximately 6.7% of the overall amount. The ownership concentration stands at approximately 82%, indicating that stockholders possess 10% or more of the company. Based on the available data, the profitability is at a modest 7%. When compared to other affluent nations, this ratio is remarkably low, with tangible assets accounting for only 39%.

Table 1 Descriptive Statistics

Variables	Mean	S.D.	Obs
BCIT	4.63	14.47	90
BSIT	1.46	13.45	90
CDIT	2.56	7.80	90
DRIT	0.37	11.67	90
DRMIT	5.01	9.70	90
OCIT	4.08	4.58	90
PFIT	5.92	2.45	90
TAIT	3.01	5.31	90

The regression study reveals a substantial positive correlation between board size and debt ratio. The debt ratio exhibits a statistically insignificant inverse correlation with board composition. Moreover, there is a statistically insignificant inverse correlation between an organization's debt ratio and its director salary coefficient. The presence of CEO duality and high ownership concentration is statistically significant and is also linked to a reduced debt ratio. There exists a detrimental correlation between them. The factors employed in this investigation are profitability and asset visibility. There is a statistically substantial inverse correlation between profitability and profitability. There exists a detrimental correlation between the tangibility of assets and their statistical insignificance.

Table 2: Correlation Matrix

Variables	BCIT	BSIT	CDIT	DRIT	DRMIT	OCIT	PFIT	TAIT
BCIT	1	0.043	0.054	0.048	0.043	0.037	0.049	0.065
BSIT	0.052	1	0.021	0.031	0.065	0.027	0.055	0.017
CDIT	0.049	0.073	1	0.012	0.019	0.033	0.065	0.087
DRIT	0.039	0.031	0.058	1	0.054	0.043	0.098	0.066
DRMIT	0.047	0.032	0.043	0.062	1	0.052	0.099	0.017
OCIT	0.022	0.048	0.029	0.043	0.032	1	0.021	0.034
PFIT	0.048	0.048	0.043	0.043	0.0472	0.037	1	0.092
TAIT	0.021	0.067	0.042	0.023	0.048	0.047	0.047	1

Discussion

Based on the aforementioned evidence, it can be inferred that there is a considerable negative correlation between the membership of the board of directors and the debt ratio. This suggests that the coefficient of board composition exerts a substantial influence on capital structure. Conversely, a negative sign indicates that an increased presence of external directors in the firm leads to a decrease in the level of debt. In addition, Yermack (1996) argues that there is a substantial inverse correlation between the size of the board of directors and the company's worth. Robust monitoring is achieved through the implementation of a well-established corporate governance system, coupled with a substantial presence of independent directors. Non-executive directors serve as a means of oversight and accountability for executive directors, safeguarding against any potential misuse of shareholders' rights. Managers employ conservative leverage to mitigate the risk of shareholder losses. Weisbach (1988) states that when there is a significant presence of non-executive directors and directors from external sources, the top manager is subject to intensive monitoring. The literature confirms that there is an inverse correlation between the composition of the board of directors and the debt ratio. Zingales (1995) found that companies with limited or nonexistent shareholder rights have a higher propensity to accumulate debt. Wen (2002) found that there is a large negative correlation between the makeup of the board and the debt ratio. This suggests that managers will want to have less debt if they have a strong and effective corporate governance system in place. Furthermore, Anderson et al. (2004) identified a negative correlation between the makeup of the board and the debt ratio. There is a positive and statistically significant relationship between the size of the board and the debt ratio. This source demonstrates that organizations with a larger board size face greater challenges in securing financing from external sources. Companies that have a bigger number of directors on their board can more readily secure funding due to their enhanced credibility. In addition, banks and other organizations have the belief that providing loans to companies with extensive boards is a more reliable and secure practice, as these companies are deemed to be more trustworthy. Consequently, companies with larger board sizes are more capable of securing capital through external finance. Moreover, this discovery aligns with previously documented findings. Jensen (1986) found that businesses with larger boards of directors have a tendency to accumulate higher levels of debt. According to Wen (2002), there is a correlation between the size of the board of directors and the level of leverage utilised. This is due to the fact that larger boards enable firms to incur greater levels of debt in order to enhance their value. Furthermore, Sheikh (2012) and Abor (2007) discovered a significant correlation between the size of the board and the level of leverage. There is a strong and statistically significant inverse correlation between the debt ratio and CEO duality. Based on the results, if the CEO holds both the positions of CEO and chairman of the board, he will opt to take on a moderate amount of debt in order to prevent and reduce the extra risk that comes with a large amount of debt. As per Fosberg's (2004) findings, these businesses accumulate significant debt and have distinct individuals serving as the CEO and Chairman. In their study, Berger et al. (1997) found a parallel relationship between the two. Organizations that lack rigorous examination of their CEO tend to accumulate lower levels of debt, according to their assertion. In their study, Coleman and Biekpe (2006) discovered a strong and inverse correlation between the debt ratio and the existence of a dual CEO. According to him, when the CEO and chairman of the board are the same individual, there is an increase in agency expenses, which in turn deters external lenders from providing finance to such businesses. Sheikh (2012) also found that there is a negative correlation between the CEO holding a dual job and the debt ratio. Furthermore, there is a negligible and inverse correlation between director remuneration and debt ratio. In their study, Wen et al. (2002) similarly identified a negative correlation between the debt ratio and director salary. The discovery of a negative correlation between the two variables indicates that an increase in director remuneration is associated with a decrease in debt. This is done to mitigate agency tensions and enhance manager engagement. Hence, a higher level of compensation for managers will lead to an increase in their motivation, prompting them to opt for a conservative level of debt in order to mitigate the risk of financial loss for the shareholders. In addition, Abdullah (2006) discovered a detrimental correlation between the debt ratio and directors' salaries. Sheikh (2012) suggests that there is a negative correlation between the debt ratio and director remuneration. The regression analysis reveals a statistically significant inverse correlation between the debt ratio and ownership concentration. Block owners exert significant influence on management decisions. Moreover, they compel the manager to function in a manner that is advantageous to the company. Our findings contradict past research as the majority of studies have consistently shown a favorable correlation between debt ratio and ownership structure. According to the research conducted by Berger et al. (1997), Mehran has the responsibility for the investigations conducted in 1992 by Sheikh in 2012, and Wen et al. in 2002, all demonstrate a noteworthy and positive correlation between ownership concentration and the debt ratio. Demsetz and Villalonga (2001) discovered a weak and inverse correlation between the two variables. When ownership is distributed, a multitude of owners may incur greater debt as each member of the ownership group possesses a restricted number of shares in the company. When there is a high concentration of ownership, the owners who hold a substantial number of the company's shares tend to be risk-averse and hence reduce the company's leverage. Controlled variable. There is a statistically significant correlation between profitability and debt ratios, indicating a negative relationship. Based on this information, the debt ratio will decrease in direct proportion to the volume of the profit. This result aligns with the conclusions of the previous inquiries. An instance can be observed in the study conducted by Kester and Kolb (1991), where they discovered a significant and inverse correlation between the debt ratio and the debt ratio. Moreover, Booth et al. (2001), Fraser et al. (2006), Raajan and Zingals (1995), and Bevan and Danbolt (2004) discovered a robust inverse correlation between the two variables. Enterprises that are more profitable tend to have lower levels of debt compared to those with lower profitability. Pecking order theory posits that wealthier organizations possess greater flexibility in distributing assets and determining investment strategies. This is because they can more effectively leverage retained earnings. As the company's profitability increases, their dependence on debt diminishes. The presence of tangible assets is positively correlated with the debt ratio, although this relationship is not statistically significant. Organizations that possess a greater number of fixed assets are more inclined to seek loans. Increased availability of fixed assets enhances the trust of debt holders in extending loans to firms, as it improves the value of the collateral. The results align with previous research conducted by Raajan and Zingals (1995), Booth et al. (2001), Sheikh (2012), and Wang (2012), all of whom found a direct correlation between the debt ratio and profitability.

Summary:

From 2009 to 2011, a study was conducted to assess the influence of corporate governance on the capital structure of thirty non-financial companies listed in Pakistan. Our research indicates that implementing and upholding efficient governance systems can enhance the overall worth of a company. The study's findings indicate that corporate governance has a substantial influence on an organization's capital structure. Furthermore, the characteristics of corporate governance are suitable for explaining the financing decisions of Pakistani firms. The objective of this study is to examine the influence of various corporate governance characteristics on the composition of a company's capital structure. The debt ratio enables the assessment of the capital structure. The results indicate that there is a negative correlation between the debt ratio, which measures the capital structure, and factors such as board composition, CEO duality, ownership concentration, and profitability. According to the acquired data, this is the situation. This link exhibits statistical significance. There is a strong and positive correlation between the size of the board and the debt ratio. Conversely, there is a positive correlation between director remuneration and the debt ratio, but it is not statistically significant. Furthermore, there exists a modest yet favorable correlation between the debt ratio and asset tangibility. The inverse correlation between board composition and capital structure indicates that boards comprising a significant proportion of non-executive directors are inclined to minimize their debt exposure due to heightened scrutiny and oversight. The observed negative correlation between CEO duality and capital structure implies that businesses with a CEO who simultaneously holds the position of chairman of the board of directors are inclined to refrain from taking on further debt. A direct correlation exists between the size of a company's board and its borrowing capacity, indicating that corporations with larger boards have the ability to acquire greater levels of debt. The presence of a greater number of tangible assets serves as evidence to the lending provider that there is a larger level of fixed assets already in place, which can be utilised as collateral to establish trust. Major corporations can more readily acquire cash from external sources due to their increased access to resources. There is a significant and robust correlation between capital structure and corporate governance.

Modifications to a company's capital structure policies can have a substantial impact on enhancing and augmenting its overall value. The present investigation in Pakistan places much emphasis on the issue of corporate governance. An effective surveillance system, acceptable methodologies, legislation, and regulations, together with suitable infrastructure, all contribute to the success and growth of organizations. The notion of effective corporate governance in Pakistani enterprises is a recent development inside the country's corporate framework.

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