

Impact of Corporate Governance and Ownership Structure on Capital Structure

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Abstract

This study explores the relationship between corporate governance and ownership structure and capital structure of all non-financial firms listed in KSE 100 index, Pakistan. The time period is of 6 years from 2008 to 2013. The effect of corporate governance and ownership structure variables like board size, non-executive directors, average board meeting attendance, CEO/Chair duality, remuneration structure and managerial ownership and control variables like, return on assets (ROA) and firm size on leverage (Debt/Equity) has been observed using multivariate regression analysis under fixed effect approach. Results show that board size, NED, CEO/Chair duality, Remuneration Structure and ROA have negative impact on Debt/Equity ratio. However leverage is not found significantly influenced by Board size, NED and CEO/Chair duality. Board meeting attendance, managerial ownership and firm size have positive effect on leverage. Relationship of managerial ownership and leverage is not significant. Also, relationship between firm size and leverage is not significant. Significant variables are average board meetings attendance, remuneration structure and ROA, while board size, NED, CEO/Chair duality, managerial ownership and firm size are insignificant variables. Therefore results advocate that corporate governance variables like average board meeting attendance, Remuneration structure and Return on assets play essential role to determine of financial blend of the firms.

Keyword: Corporate Governance; Capital Structure; Ownership Structure; Leverage, ROA

1. Introduction

Corporate governance is a process that create shareholders value by managing corporate affairs. Strategic decisions like external financing can be influenced by sound corporate principles as such decisions are taken at board level. Capital structure decisions are affected by corporate governance variables like CEO/Chair duality, board size and board composition. Corporate governance is associated with agency problem that arises due to separation of ownership and control. Agency problems can arise because of inefficiencies and incomplete information and because of when both principles and agents work for their own interests (Hassan and Butt, 2009).

Corporate governance can effectively counteract the conflict between shareholders and managers. In addition, corporate governance can manage the rift that might arise between the main shareholders and the minority, shareholders with limited shares; it does this through, employment of both external and internal control mechanisms. Internal mechanisms aim at counteracting the conflicts between the board of directors, managers and even the shareholders whether minor or major. Internal mechanisms do so by employing control of management and surveillance that, more often than not, is at the discretion of the shareholders and management of an organization. Within the internal mechanisms of governance, one crucial aspect is the structure.

Modern corporate finance theories posit that agency costs are one of the major determinants of capital structure. Capital structure and corporate governance are enjoined through the close association with the costs of agency. This study integrates a number of strands of literature and evaluates the effects of ownership structure and the corporate governance on the capital structure decisions of enlisted companies in Pakistan. At earlier stages, corporate governance principles faced an array of challenges and resistance from the people. With the passage of time and as more and more corporations are growing, the nature and the complexities of businesses are also increasing significantly. In addition, it is worthwhile to note that, people have now increasingly realized the importance of corporate governance. Inadvertently, there are still a number of companies in Pakistan that are reluctant to adopt the principles above.

The purpose of the study is to know that, to what extent corporate governance and ownership structure affect capital structure of all non-financial firms listed in Karachi stock exchange 100 index. As, corporate governance structure of Pakistan is way below par in terms of expansion in comparison to other countries developed. This study on corporate governance will assist the businessmen of Pakistan in their business activities in term of corporate governance. This study will be helpful for them in knowing that the corporate governance variables,

like size and ownership structure assume paramount part in determination of monetary blend of the organizations.

2. Literature Review

Gigantic amounts of studies have been made towards the analysis of the effect that corporate governance has on capital structure of the corporation. Conclusions of diverse nature have been made to many other countries that are way ahead in terms of development. In-depth review of the literature suggests that work of the experimental nature have majorly focused on the eventual effects of good governance on the general performance of a firm.

Jenson & Meckling (1976) concluded that managerial shareholding aligns the interests of shareholders and management and reduces the aptness to involve in non-maximizing behavior. According to them higher leverage supports alleviate agency problems proposing a positive relationship between profitability and leverage. Salancick and Pfeffer (1978) discover a discriminating relationship between capital structure and board size. The affirmation regarding course of relationship between board size and capital structure is mixed. They highlight that a non-official executive assumes a critical part in upgrading the ability of an organization to distinguish from outside stake holders. Subsequently, prompts decrease in instability about organization and improve capacity of the organization to increase reserves. They got the result that more elevated amount of presentation of non-executive directors ready for increasing adapting stages. Jensen (1983) contends that a business where choice administration also the choice control capacities ought to be particular.

Jensen (1986) discovers that organizations of increasing adapting stages in fact they have generally all executives while organizations with lower representation of non-official executives who have less power. These results are showing that the influence of the outside value holders is in a great quantity on the financial matters and the capital assets level. Lipton and Lorsch (1992) highlight that NEDs play vital role to get the firms introduced to outside participants. Jensen (1986) also concludes that managers try to expand the firm for their personal benefits that may increase leverage. Friend and Lang (1988) found negative relationship between management shareholding and leverage ratio and with high management shareholding low leverage level will lead to high non diversifiable risk of debt to management. Short, Keasey and Duxbury (2002) took UK firms to find out the relationship between ownership structure and capital structure and concluded that there is positive relationship between leverage level and ownership structure and negative relationship between leverage level and external equity holders. When there are large number of external equity holder then the relationship between management ownership and leverage ratio gets blur. Brailsford (2002) finds that agency conflicts are lower when there is low level of managerial ownership that leads to higher level of debt. Similarly, higher level of managerial ownership leads to lower level of debt.

Berger, Eli and Yermack (1997) used data of top 452 US industrial firms from 1984 to 1991 to find the effect of managerial entrenchment on capital structure and found that entrenched CEOs try to keep debt level low and with that, leverage level remain low unless steps are taken to reduce entrenchment that increase leverage level. According to Berger, Eli and Yermick (1997) associations who have a bigger directorate for the most part have low outfitting levels. Henry (2004) contends that, the sole concern of corporate governance is to assess how a company can cut down on the costs that come up as a result of agency conflicts and what strategic management body can enact to improve the performance of the firm. Anderson, Mansi and Reeb (2004) find that firms with larger board are perceived to be effectively monitored firm by the lenders. So cost of debt is lower for firms having larger boards.

Abor and Biekpe (2007) inspect the relationship between corporate governance and capital structure choices of Ghanaian Small and Medium enterprises and find that corporate governance variables like board composition, board size, skill level of management, CEO/Chair duality, family business, inside ownership and foreign ownership have significant positive impact of leverage level. Ranti (2013) also found significant negative relationship between board size and leverage. Wen, Rwegasira and Bilderbeek (2002), and Saad (2010) discover positive relationship between board size and capital structure. Wen, Rwegasira and Bilderbeek (2002) contends that extensive sheets take after an arrangement of larger amounts of equipping to improve firm esteem particularly when these are settled in because of more prominent checking by administrative powers. Singh and

Davidson III (2003) checked the relationship between agency cost and board size and found significant positive association between them. Jiraporn *et al.* (2009) and Hussainey and Al-Nodel (2009) found significant positive relation between board size and debt ratio.

Nazir, Aslam and Nawaz (2012) analyze the impact of CEO/Chair duality and capital structure of non-financial sector of Karachi stock exchange of Pakistan. Sample comprised of 269 non-financial firms from 2004 to 2009. They applied generalized regression model and results revealed that there is significant positive relationship between CEO duality and firm's leverage. According to Maryam and Monazza (2013) CEO duality, board composition, ownership concentration, and profitability have significant negative effects of debt ratio. While there is significant positive relationship between board size and debt ratio. Asset tangibility, firm size and remuneration of directors have positive but weak impact on debt ratio. Their sample consisted of 30 firms listed in Karachi stock exchange. They used ordinary least square method of regression and found the above results.

Awais, Masood and Azeem (2014) tested the relationship between capital structure and firm value. They also investigated the effect of corporate governance of firm value. They used the sample of 155 non-financial firms listed in Karachi stock exchange from the period 2008 to 2012 by using fixed effect regression. Results revealed that only ownership concentration and board independence have significant positive impact on firm value.

3. Research Hypothesis

H1: Board size has significant relationship with leverage.

H2: Non-executive directors has significant relationship with leverage.

H3: Average board meeting attendance in a year has significant relationship with leverage.

H4: CEO/Chair duality has significant relation with leverage.

H5: Remuneration structure and leverage has significant relationship.

H6: Managerial ownership has significant relation with leverage.

H7: Return on Assets has significant relationship with leverage.

H8: There is significant relationship between firm size and leverage.

4. Data and Methodology

This study consists of 54 non-financial firms listed in Karachi stock exchange 100 index. Period of the study is from 2008 to 2013. Fixed effect regression model has been used after applying Hausman test which suggested that fixed effect regression is appropriate. Independent variables included in this study are, Board size, Non-Executive Directors, Average Board Meetings Attendance, CEO/Chair Duality, Remuneration Structure, Managerial Ownership. Firm size and Return on assets are control variables. Variables are explained below.

4.1 Dependent Variable: Leverage

Different researchers have used different proxies for Leverage in their research. Some researcher used short term and long term debt as a percentage of total assets as measure of leverage. However, some capital structure theories consider only long term loan as a proxy of leverage.

4.2 Independent Variables

4.2.1 Board Size

Board size is the number of directors included in board of directors. It includes both executive and non-executive directors. It is an important variable of corporate governance as size of the board has significant effect on capital structure, as because of the strong administration by the board of directors put an impact of capital structure decisions depending of the situations. It is measured as log of number of people in board.

4.2.2 Non-Executive Directors (NED)

Non-executive directors are those directors who are not the part of management of the firm. Researchers believe that inclusion of non-executive directors put pressure on management to work in the best interest of

shareholder. It is positive signal for stakeholders and they think that the firm is monitored effectively, if there is more number of non-executive directors. This variable is measured as number of non-executive directors in board divided by total number of directors.

4.2.3 Average Board Meeting Attendance

Board meeting attendance give positive signals to external parties about the business activities of the firm. Firm performance is closely observed in board of directors meeting and future recommendations are made, if necessary, in such meetings. The purpose of including this variable is to know how effectively firm's activities are monitored and recommendations are made by attending board meetings and one can observe such activities by looking into the performance of the firm based on the recommendations made by board of directors in their meeting. Average Board Meeting Attendance is measured as sum of number of directors attended the meeting in a year divided by number of board meetings in a year.

4.2.4 CEO/Chair Duality

There are firms whose board of directors has different persons acting as CEO of the firm and chairman of board of directors, while few have 1 person acting as CEO and also chairman. This variable has been included in this study as a dummy variable. Its value is 1 if CEO also acts as president of board of directors and otherwise 0.

4.2.5 Remuneration Structure

This variable, by the way, is presumed as taking a natural dimension of the total of yearly sum annual benefits paid out to all members of the board.

4.2.6 Managerial Ownership

This variable includes the percentage of the shares held by CEO, directors, Spouse and Children.

4.3 Control Variables

4.3.1 Return on Asset (ROA)

ROA is used in calculation as a proxy of profitability and it indicates that how profitable the firm is relative to its total assets. It is an indicator that gives the idea about the efficiency of management by indicating that how efficiently management uses its assets to generate profit. ROA gives an indication to investor that how efficiently the firm converts its assets into profit. High ROA means the firm is earning more money on less investment. In this study ROA has been used as control variable. ROA is measured as Earnings before interest and tax divided by average total assets.

4.3.2 Firm Size (FS)

This variable has been used as a control variable in this study. There are different opinions about the relationship between Firm size and Leverage level. First, large firms don't consider the bankruptcy costs while going for debt, because larger firms have lesser chances of bankruptcy as larger firms are more diversified (Titman & Wessels, 1988). So, firm size has positive relationship with leverage level. Second, larger firms have less asymmetric information, so the chances of undervaluation of new equity issue is reduced and that's why large firms are encouraged towards equity financing (Rajan and Zingales, 1995). Firm Size is measured as taking natural log of total assets

The model used in this study is as follow

$$LEV_{it} = \beta_0 + \beta_1(BZ)_{it} + \beta_2(NED)_{it} + \beta_3(ABMA)_{it} + \beta_4(DUALITY)_{it} + \beta_5(RS)_{it} + \beta_6(\%MO)_{it} + \beta_7(ROA)_{it} + \beta_8(SZ)_{it} + \mu_t$$

Where:

LEV = Leverage

BZ = Board size

NED = Non-Executive Directors

ABMA = Average Board Meeting Attendance

DUALITY= CEO/Chair Duality

RS= Remuneration Structure

MO= Managerial Ownership

ROA = Return on Assets

SZ = Size of Firm

μ_t = Error Term

β_0 = Intercept of the equation

5 Results and Discussion

5.1 Descriptive Statistics

Table-1 below shows the descriptive statistics.

Table-1

Descriptive Statistics

	LEV	BS	NED	ABMA	DUALITY	RS	MO	ROA	FS
Mean	1.419	8.00	0.703	4.196	0.160	19.17	10.258	15.820	23.471
Median	0.895	8.000	0.714	4.000	0.000	19.067	0.835	12.135	23.525
Maximum	12.45	15.000	1.000	10.71	1.000	22.668	56.937	67.590	26.749
Minimum	0.030	7.000	0.000	2.222	0.000	14.882	0.000	-24.750	20.698
Std. Dev.	1.538	2.047	0.176	1.311	0.368	1.3898	16.032	14.978	1.262

According to table 1, average board size is 8.00. Maximum number of board of directors in a firm included in this study is 15, while minimum number is 7. Number of non-executive directors are 0.70 or 70 percent. Maximum number of non-executive directors in any firm's board of director in the sample is 1 or 100 percent. Mean value of average board meeting attendance is 4.196. Maximum value is 10.71 and minimum value is 2.22. Average value of this variable is 19.166. Maximum and minimum values are 22.67 and 14.88 respectively. 1.39 is the value of standard deviation of this variable. Maximum percent of shares held by CEO, directors, spouse and children is 56.94 and minimum is 0. Average profitability of all the firms that are the part of this study is 15.82. Highest profitable firm having 67.59 ROA value. Minimum ROA value of this sample is -24.75. It is clear from descriptive statistics that firms' average debt financing is 1.42 with the standard deviation of 1.54%. Maximum value of leverage is 12.45 and minimum value is 0.03.

5.2 Correlation Analysis

Table-2 shows the results of Pearson correlation.

Table-2

Correlation Matrix

	LEV	BS	NED	ABMA	DUALITY	RS	MO	ROA	FS
LEV	1	.272	.099	.178	-.053	.155	.053	-.305	.254
BS		1	.312	.017	-.162	.401	-.151	-.003	.444
NED			1	.109	-.325	.005	-.013	.045	.234
ABMA				1	-.040	.164	.173	-.017	.283
DUALITY					1	.020	-.135	.018	-.085
RS						1	-.386	.276	.570
MO							1	-.175	-.288
ROA								1	-.131
FS									1

According to Table-2, there is a positive correlation between board size and leverage and the value of correlation coefficient is 0.272. It may be concluded from this result that if size increases then firm go for high debt because lenders think that the firm is effectively managed and they don't hesitate to provide debt (Anderson, *et al*, 2004; Abor and Biekpe, 2009).

'Non-executive directors' variable has positive correlation with leverage level with the correlation coefficient value of .099. It means that if the number of external director increases in a firm, leverage level of that firm also increases. NEDs monitor managers more efficiently and effectively so managers are forced to seek lower gearing levels for achieving superior results. Similarly, companies with higher representation of NEDs are bound to follow low financial leverage with a high market value of equity (Wen, Rwegasira and Bilderbeek 2002).

Table-2 shows that average board meeting attendance variable is positively correlated with leverage. It may be concluded that if number of board of directors' attendance in board meetings are high then it may signal the lender that the business activities are regularly observed by board of directors and they think that they can have better good business relationship with that firm.

If high benefits are paid to the board of directors of a firm then the firm will go for high debt. Table-2 shows that there is significant positive association between leverage and remuneration structure.

If percentage of shares held by CEO, director, spouse and children of any firm is high then the leverage level of that firm will also be high. Table 2 shows that there is positive correlation between leverage and managerial ownership. According to (Abor and Beikpe, 2009) if managers hold share in the company then they will use more debt because like other shareholders they don't want other people to participate in firm's ownership.

Table 2 shows significant negative association between leverage and ROA. This result is according to pecking order theory which states that, firms use their internally generated funds as a first priority and then they go for debt as a last resort. So, the firms with low ROA have high leverage level and vice versa.

The higher the firm size, the higher will be the leverage level. Table-2 shows positive correlation between firm size and leverage. It may be due to the fact that large firms have low bankruptcy cost and lenders are willing to provide them debt because they think that such firms have less possibility of default they can easily get back their amount.

5.3 Regression Analysis

Before applying regression on data, there are some assumptions that must be fulfilled. If these assumptions are not fulfilled then the results will not be true. These assumptions are as follow.

- i. Linearity: There must be linear relationship between dependent variable and independent variable. Scatter diagram is used to check the linearity in variables. Scatter diagrams are given below.

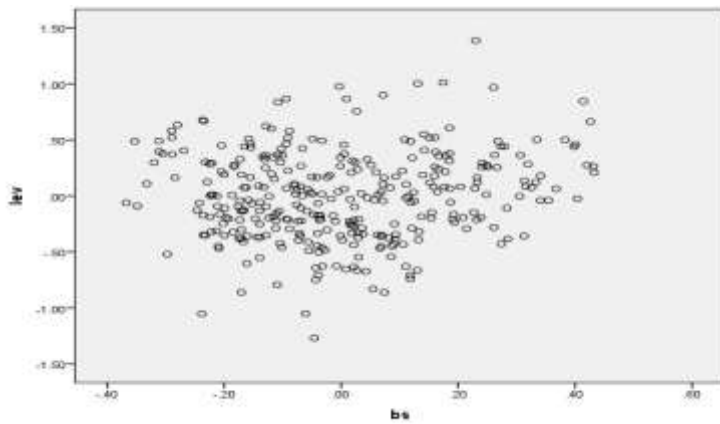


Figure 1 Scatter Diagram of Board size and Leverage

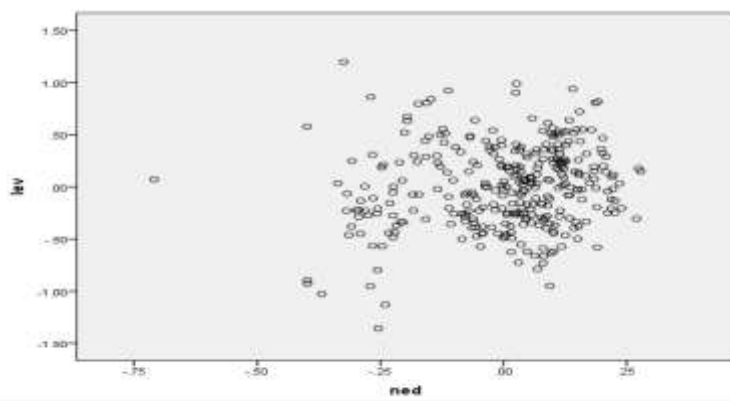


Figure 2 Scatter Diagram of NEDs and Leverage

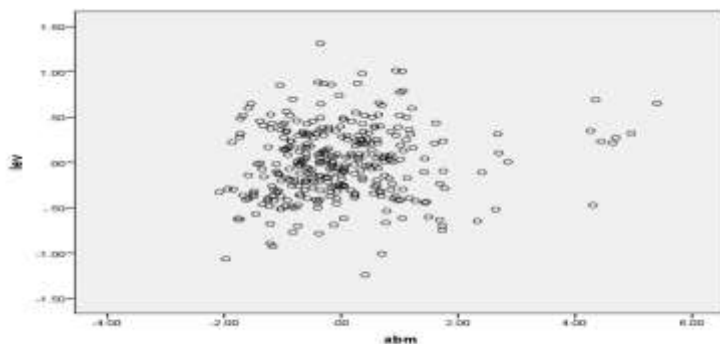


Figure 3 Scatter Diagram of ABM and Leverage

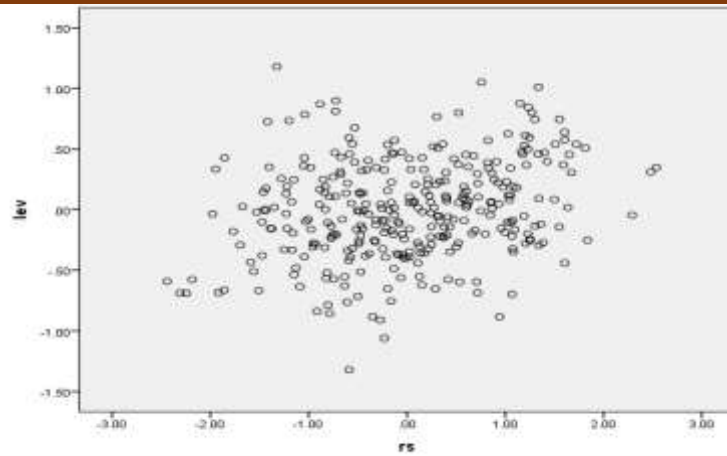


Figure 4 Scatter Diagram of Remuneration Structure and Leverage

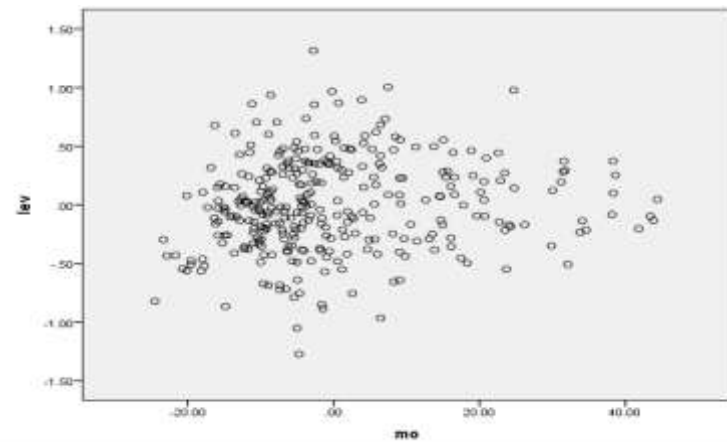


Figure 5 Scatter Diagram of Managerial Ownership and Leverage

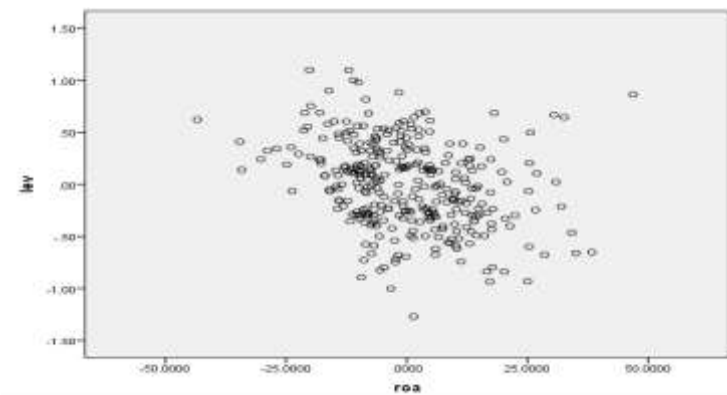


Figure 6 Scatter Diagram of Return on Assets and Leverage

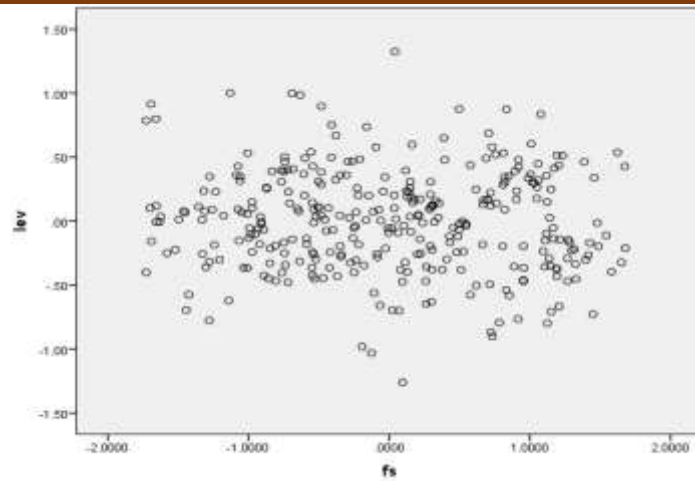


Figure 7 Scatter Diagram of Firm Size and Leverage

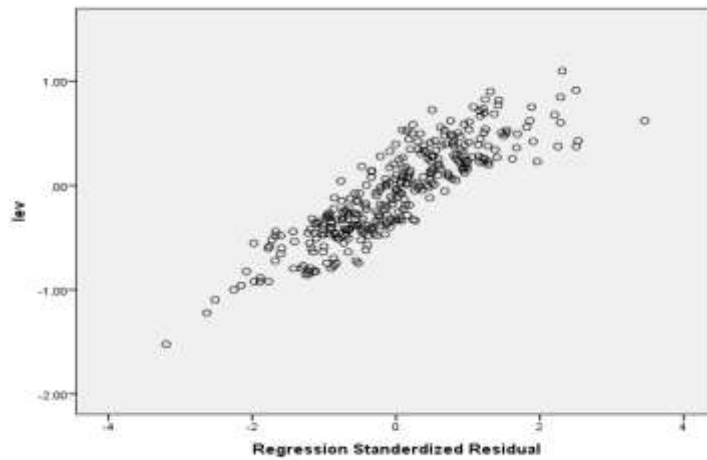


Figure 8 Scatter Diagram of all independent variables and Leverage

It is clear from above scatter diagrams that the patterns between dependent variable and all independent variables are somewhat linear. So, it fulfills the assumption of linearity.

- ii. Normality: Another regression assumption is normality. It means that residuals of variables are normally distributed. Normality can be checked with Jarque-Bera test. Histogram and Jarque-Bera test result are given in following figure 9.

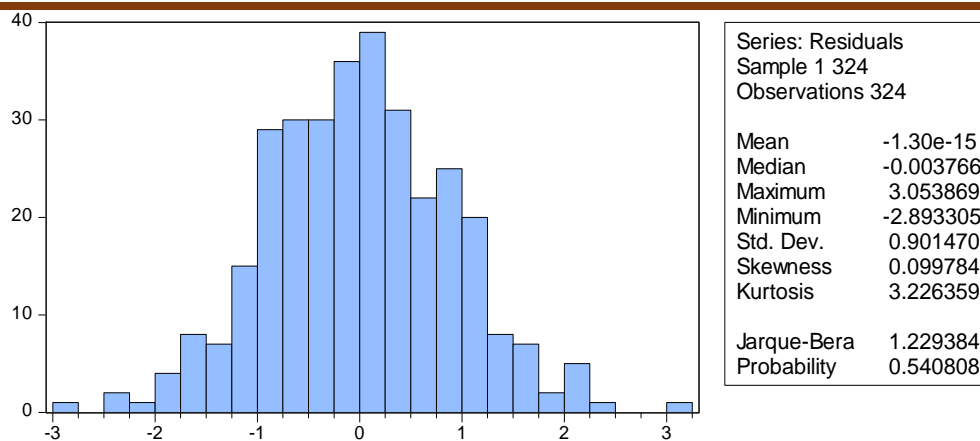


Figure 9 Histogram and Jarque-Bera test result

Null hypothesis (Ho) of Jarque-Bera test is “ residuals of variables are normally distributed” While Alternative hypothesis (H1) states that “ residuals are not normally distributest”. P value of Jarque-Bera test shows the value of 0.540808 which is larger then 0.05. It means that it is not significant and null hypothesis cannot be rejected and the null hypothesis stats that the residuals are normally distributed.

- iii. Multicollinearity: Multiple regression assumes that data must have no or little multicollinearity. When there is correlation between independent variables, it means that there is multicollinearity in the data. Multicollinearity can be checked with correlation matrix, tolerance or variance inflation factor (VIF). Variance inflation factor (VIF) table is given below.

Table-3
Variance Inflation Factor (VIF)

	Tolerance	VIF
bs	.690	1.449
ned	.750	1.333
abma	.813	1.231
duality	.865	1.156
rs	.457	2.187
mo	.736	1.358
roa	.760	1.317
fs	.465	2.149

Different researcher have different views about the value VIF for multicollinearity, but most of the researchers believe that if the value of VIF is less than 5 then there is no multicollinearity in the data. Value between 5 to 10 has some multicollinearity and if the value of VIF is more than 10 then there is severe multicollinearity in the data. Above Table-3 shows the value of VIF which are less than 5, it means that there is no multicollinearity in the data.

- iv. Heteroskedasticity: Multiple regression assumes that there must be no heteroskedasticity in the data. It means that the spread of residuals of variables must be homoscedastic. Homoscedasticity means that the variance of the errors is the same across all the levels of independent variables. Breusch-Pagan-Godfrey test is used for this purpose which is given below in table-4.

Table-4
Breusch-Pagan-Godfrey Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.497884	Prob. F(8,315)	0.1570
Obs*R-squared	11.87375	Prob. Chi-Square(8)	0.1569
Scaled explained SS	465.5828	Prob. Chi-Square(8)	0.0000

Null hypothesis (Ho) of Breusch-Pagan-Godfrey is “There is no heteroskedasticity”, while alternative hypothesis is “There is heteroskedasticity in the data”. p value of the test is 0.1569, which is more than 0.05. It means that null hypothesis cannot be rejected. It means that there is no heteroskedasticity in the data.

5.3.1 Hausman Test

Normally simple pooled regression is used to find such effect but limitation of simple pooled regression is that it does not take into account the heterogeneity or individuality, in other words it considers that all the firms are the same. But in reality all firms are not the same. So, for heterogeneity, either fixed effect regression or random effect regression is used. For this purpose, Hausman test is applied to see whether fixed effect regression or random effect regression is appropriate. In following Table-5 result of Hausman test is given.

Table-5
Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob.
Cross-section random	29.754455	8	0.0002

According to Table-5, Hausman test shows that, for the data used in this study, fixed effect regression is appropriate, because the probability value is less than 5% or 0.05 i.e. $p=0.0002$. So, we reject null hypothesis and null hypothesis shows that random effect regression is appropriate but here null hypothesis is rejected. So, fixed effect regression is appropriate.

After fulfilling all regressions, fixed effect regression has been applied as suggested by Hausman test. Results of multivariate regression analysis is shown in Table-6.

Table-6

Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.384266	5.260612	1.403689	0.1616
BS	-1.740950	0.961760	-1.810172	0.0714
NED	-0.806093	0.685401	-1.176090	0.2406
ABMA	0.141647	0.060852	2.327726	0.0207
DUALITY	-0.102454	0.305052	-0.335859	0.7372
RS	-0.423011	0.133712	-3.163590	0.0017
MO	0.005928	0.015053	0.393842	0.6940
ROA	-0.027819	0.008220	-3.384331	0.0008
FS	0.266285	0.263057	1.012272	0.3123

R-squared	0.794341
Adjusted R-squared	0.746458
F-statistic	16.58939
Prob (F-statistic)	0.000000
Durbin-Watson stat	1.777424

Table-6 shows that, Board Size has insignificant negative relationship with leverage. NED has insignificant negative impact on leverage. CEO/Chair duality has insignificant negative relationship with leverage. Fosberg (1989) concludes that if in a firm CEO and Chairman are two different persons then that firm will have high leverage level because they employ optimal level of debt in capital structure. Board meeting attendance has significant positive impact on leverage. It can be concluded from result that if number of attendance in board of directors meeting are high then it may signal the lender that the business activities are regularly observed by board of directors and they think that they can have better good business relationship with that firm. There is significant negative relationship between remuneration structure and leverage. It may be due to the fact that if remuneration is high the more concentration is towards firm performance and for that purpose equity is issued. Regression analysis shows that there is insignificant positive relationship between Managerial ownership and Leverage. ROA has significant negative relationship with leverage. This result is same as that of Rajan and Zingales (1995). This result is according to pecking order theory, which states that firms use internally generated funds as a first priority for financing and then they go for debt. Relationship between firm size and leverage is positive but not significant.

6. Conclusions and recommendations

Corporate governance has gained very much importance because of the different business scandals around the world. The purpose of this study is to examine the impact of corporate governance and ownership structure on capital structure.

Fixed effect regression has been used on a panel data to analyze the effect of corporate governance variables on capital structure of all non-financial firms of Karachi stock exchange 100 index. Total of six years of data, from

2008 to 2013, have been collected for this purpose from state bank of Pakistan, SECP, KSE 100 index website and firms respective websites.

The results show that board size has negative but weak relationship with leverage. It may be concluded from this result that in Pakistani firms the capital structure decision are not very much dependent of board size. Whatever, the size of the board is, the capital structure decisions are made based on the current market activities, interest rate level, chances of default, firms' performances and tax rate. NED is negatively correlated with leverage but this result is not significant. Non-executive director includes directors who are not executive of the firm. It also includes independent directors. In Pakistan the distinction between non-executive directors and independent director is blur. So, independent directors are included in non-executive directors' category. Like board size, non-executive directors has not much importance in capital structure decisions in Pakistan, because both executive and non-executive directors make decision about capital structure based on the different internal and external factors irrespective of the size of the board and number of non-executive directors included in the board.

Average board meeting attendance has significant positive relationship with leverage. This result shows that if attendance of board of directors in meetings is high, leverage level will also be high. It may be concluded from this result that lenders observe firms activities and if directors take part in board meetings actively then lenders think that directors are taking interest in business activities and they don't hesitate to provide debt to such firms, because they think that they can get their amount back.

CEO/chair duality has insignificant negative relationship with leverage. Most of the firms in Pakistan are run by family members or some relatives. So, it makes no difference if CEO and chairman of the board is one person or two different persons, because high level decisions are made by the head of the family, whether he is the CEO or he chairman of board of directors. So, CEO/Chair duality makes no difference in capital structure decisions in Pakistan. Remuneration structure has significant negative relationship with leverage. The inverse relation shows that if remuneration of board is high, they go for equity issuance for improved performance. According to regression analysis, there is positive but weak relationship between managerial ownership and leverage.

ROA has significant negative impact of leverage. This result is according to pecking order theory which states that "companies use internally generated funds as first priority to finance project, then they go for debt and finally they issue equity as a last resort." Larger firms normally have low bankruptcy cost and they also have close links with lenders and lenders think that they can return the amount well in time. So, larger firms have high leverage level. The result of regression shows that there is positive but insignificant relationship with leverage.

Furthermore, on the basis of Pearson correlation matrix, we have concluded that board size, NED, board meeting attendance, remuneration structure managerial ownership and firm size have positive correlation with leverage, while CEO/Chair duality and ROA are negatively correlated with leverage.

We focused on the impact of corporate governance and ownership structure on capital structure of the firm in Pakistan. Whereas fluctuation in inflation rate, interest rate, poverty rate, population expansion, governments laws, purchasing power of the final consumer, international geographical and political interest of the developed countries, State bank discount rate variations, real estate bubble blast and various other external factors exist in market which should be considered by the researchers while analyzing the impact of corporate governance and ownership structure on capital structure in their studies. So, it is recommended that, any forthcoming research should consider also the external overall economy and industry specific factors of Pakistan. So that the study could be more suitable and better representative for corporate market in Pakistan.

7. Future research

Purpose of this study is to evaluate the impact of corporate governance and ownership structure on capital structure of non-financial firms listed in kse 100 index. This study may further be extended by choosing different industries. Moreover, other corporate governance variables like audit committee etc. may be included for further research. Variable like growth and tangibility etc. may be included as control variables. Impact of

corporate governance on capital structure can be analyzed by choosing different industries. Furthermore, more years of data may be included for further research.

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