

**IMPACT OF CORPORATE GOVERNANCE PRACTICES
ON CAPITAL STRUCTURE; AN EMPIRICAL STUDY
OF KSE LISTED PAKISTANI FIRMS**



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Abstract

Firms whose securities are publicly traded are studied to identify the influence of their corporate governance practices on their financing choices. The firms' board of directors is the ultimate decision taker of such choices and provide key strategic outlook. Size and composition of board and ownership structures thus play some role in this respect. Various researches have been carried out to judge the relationship between attributes of corporate governance and the capital structure, mostly using debt ratio.

This study involves the analysis of 100 non-financial companies that are listed on the Karachi Stock Exchange. The dependent variable in the study is the total debt ratio and the independent variables are features of corporate governance. These features include board size, board independence, CEO duality, managerial ownership, ownership concentration and institutional ownership. Certain control variables that have been taken into account include firms' size, profitability and tangibility of assets. The data studied has spanned over a five years period from 2007 to 2011. The econometric analysis included panel regression with random effects.

This research could prove negative association of leverage with CEO duality, board independence, board size, managerial ownership, firm's size and profitability while that of a positive association is observed with institutional ownership, ownership concentration and tangibility of assets. However except for managerial ownership (at 20% level of significance), tangibility and profitability (both at 5% level of significance) none of the variables were found statistically significant.

This study also provides content for comparison with the studies conducted across other capital markets and over prior time periods.

Key words: Corporate governance, capital structure, leverage

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