CORPORATE GOVERNANCE PRACTICES CAN MITIGATE THE INFLUENCE OF CAPITAL STRUCTURE ON FIRM PERFORMANCE: A CROSS-COUNTRY EMPIRICAL STUDY

Muhammad Sadiq Shahid1, Muhammad Abbas2 and Muhammad Hassan Bucha3

Abstract

We examined whether corporate governance practices can mitigate the effect of capital structure on the performance of a firm in the emerging stock markets of Pakistan and India. Good corporate governance practices play a significant role in eliminating risk for investors, appealing capital investment and hence enhance the performance of the firms. The firms need capital resources to maximize the wealth of shareholders through profit. Therefore, there is a need to focus on the factors affecting profitability and capital structure. The sample of the study is comprised of 208 non-financial firms listed at KSE (Pakistan) and BSE (India) from 2006-2015. We used the panel data techniques, pooled OLS and fixed effect to find out the relationship among corporate governance practices, capital structure and profitability. The outcome of this study indicate that corporate governance practices significantly influence the firm capital structure. Further, results confirmed that corporate governance practices have a distinct effect on the speed of capital structure adjustment. It is suggested that the application of corporate governance rules should be mandatory. Political, social and cultural aspects have to be considered in the corporate governance policy framework. This is the first empirical study examining that corporate governance practices can mitigate the influence of capital structure on a firm’s performance (in Pakistan and India) by employing most recent cross-country data. This study contributes in literature by highlighting the relationship between the corporate governance and capital structure choice.

Keywords: Corporate Governance, Capital Structure, OLS, Emerging Stock Market and Firm Performance.

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1 Associate Professor, BahauddinZakariya University, Multan, Pakistan. Email: sshahidmalik@bzu.edu.pk
2 Assistant Professor, Air University Islamabad, Multan Campus, Pakistan. mam@aumc.edu.pk
3 Associate Professor, BahauddinZakariya University, Multan, Pakistan. hassanbucha@bzu.edu.pk