

**CORPORATE GOVERNANCE MECHANISMS AND FIRMS' DEBT
FINANCING: EVIDENCE FROM OMAN**

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DEDICATION

I wish to dedicate this thesis to my dear parents who gave me love, support and encouragement. I also wish to dedicate this thesis to my dear wife, brothers, sisters and many friends who have supported me throughout the process.

ABSTRACT

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The capital structure decisions are considered to be the most important decisions that a firm's managers take. The importance of capital structure is reflected through its potential influence on the firms' ability to fulfil the needs of different stakeholders and also to what extent the source of financing or the combination of sources could lead to increased firm's value. Many previous studies had only examined the effect of corporate governance on capital structure through a particular characteristic of board structure. However, such separate investigations of an individual characteristic of board of directors ignore the possibility that there are other characteristics which may have complementary effects or that the analysed characteristic is actually a proxy for another characteristic.

Indeed, this study contributed to literature by providing new evidence concerning the direct effects of board of directors' quality, audit committee quality and concentrated ownership on capital structure. Further, this study also fills an important gap and contributed to the literature by investigating the moderating effects of concentrated ownership (inside and outside substantial shareholders) on the association between board of directors' quality and firms' capital structure due to the significant role that

could be played by such factors on firms' financing decisions. In addition to the above objective and apart from the direct effect of audit committee quality on firms' financing, this study also contributed to an understanding of the literature on a mediating effect of financial reporting quality between audit committee quality and firms' capital structure.

A panel data approach was used in this study, which included the sample of 535 firm-year observations of public firms listed on the Muscat Securities Market (MSM) from 2005 to 2011. This study, based on the Hausman specification test, used random effects model. Contrary to the agency perspective, the findings of this study indicated that the quality of the board of directors had an insignificant influence on firms' capital structure. However, consistent with the agency theory, the audit committee quality was significantly related to firms' capital structure. The concentrated ownership (insiders and outsiders) influences the firms' financing decisions when measured by the book leverage. Regarding the moderating effects, the results showed that when the board of directors' quality interacted with the insider ownership, it led to lower firms' debt financing. This supports the argument that the insider ownership impedes the board of directors' role in determining firms' financing decisions. In contrast, the outsider ownership influences the board of directors to an increase in firms' leverage. As for the mediating effects, the results indicated that financial reporting quality mediates the association between the quality of the audit committee and firms' capital structure for both measures (book value and market value of leverage). Generally, the results of this study indicated that the financing decisions in the Omani non-financial firms were influenced by the internal mechanisms of corporate governance currently employed in these firms.

ABSTRAK

MEKANISME TADBIR URUS KORPORAT DAN PEMBIAYAAN HUTANG FIRMA: BUKTI DARIPADA OMAN

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Februari 2016

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**Pusat Pengajian : Pusat Pengajian Perniagaan dan Pengurusan Maritim
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Keputusan struktur modal merupakan keputusan penting yang diambil oleh para pengurus dalam sesebuah syarikat. Kepentingan struktur modal ini diperlihatkan melalui pengaruh yang ada padanya terhadap kemampuan syarikat berkenaan untuk memenuhi keperluan para pemegang saham dan dalam menjelaskan sejauh mana sumber pembiayaan atau gabungan beberapa sumber itu boleh melonjakkan nilai syarikat berkenaan. Banyak kajian yang lalu hanya menguji kesan urus tadbir korporat terhadap struktur modal melalui sesuatu ciri tertentu struktur lembaga. Namun demikian, penyiasatan berasingan bagi setiap ciri lembaga pengarah menolak kemungkinan wujudnya ciri-ciri lain yang mungkin mempunyai kesan melengkap, atau mungkin juga ciri-ciri yang dianalisis itu sebenarnya proksi bagi ciri yang lain.

Kajian ini menyumbang kepada bidang berkaitan dengan memberikan bukti baharu berkenaan kesan langsung daripada kualiti lembaga pengarah, kualiti jawatankuasa audit, dan pemilikan berpusat terhadap struktur modal. Selanjutnya kajian ini turut mengisi jurang penting dan menyumbang ke dalam bidangnya dengan menyiasat kesan menyederhana yang ada pada pemilikan berpusat (di dalam dan di luar

pemegang saham besar) terhadap perkaitan antara mutu lembaga pengarah dengan struktur modal syarikat disebabkan oleh peranan besar yang boleh dimainkan oleh faktor-faktor berkenaan terhadap keputusan pembiayaan syarikat. Tambahan kepada objektif di atas dan selain kesan langsung oleh mutu jawatankuasa audit terhadap pembiayaan syarikat, kajian ini turut menyumbang kepada bidang ini dalam memahami kesan mengantara oleh mutu pelaporan kewangan antara mutu jawatankuasa audit dengan struktur modal syarikat.

Pendekatan data panel telah digunakan dalam kajian ini yang melibatkan 535 pemerhatian ke atas sampel syarikat dan tahun bagi syarikat-syarikat awam yang disenaraikan dalam Pasaran Sekuriti Muscat (MSM) dari tahun 2005 hingga 2011. Kajian yang berdasarkan ujian spesifikasi Hausman ini menggunakan model kesan rawak. Tidak seperti perspektif agensi, dapatan kajian ini menunjukkan bahawa mutu lembaga pengarah mempunyai kesan yang tidak signifikan terhadap struktur modal syarikat. Walau bagaimanapun, selari dengan teori agensi, mutu jawatankuasa audit berkait secara signifikan dengan pembiayaan hutang syarikat. Pemilikan berpusat (pihak dalam dan pihak luar) mempengaruhi keputusan pembiayaan syarikat apabila diukur oleh keumpilan buku. Berhubung kesan menyederhana, keputusan mendapati bahawa apabila mutu lembaga pengarah berinteraksi dengan pemilikan pihak dalam, ia menghasilkan pembiayaan hutang syarikat yang lebih rendah. Hal ini menyokong hujah bahawa pemilikan pihak dalam menghalang peranan lembaga pengarah dalam menentukan keputusan pembiayaan syarikat. Sebaliknya, pemilikan pihak luar mempengaruhi lembaga pengarah untuk meningkatkan keumpilan syarikat. Bagi kesan mengantara pula, keputusan menunjukkan bahawa mutu pelaporan kewangan mengantara perkaitan antara mutu jawatankuasa audit dengan struktur modal

syarikat bagi kedua-dua bentuk ukuran (nilai keumpilan buku dan nilai keumpilan pasaran). Pada umumnya, keputusan daripada kajian ini menunjukkan bahawa keputusan pembiayaan dalam syarikat bukan kewangan di Oman dipengaruhi oleh mekanisme dalaman bagi tadbir urus korporat yang kini digunakan oleh syarikat-syarikat ini.