DOES CORPORATE GOVERNANCE AFFECT THE CAPITAL STRUCTURE DECISIONS OF OMANI LISTED COMPANIES?

BY

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DOES CORPORATE GOVERNANCE AFFECT THE CAPITAL STRUCTURE DECISIONS OF OMANI LISTED COMPANIES?

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By

Ahmed Sultan Salmen Bin Sariman

DECLARATION

I certify that the substance of this thesis has not been submitted for any degree and is not currently being submitted for any other qualification.

I certify that any assistance received in preparing this thesis and all sources used have been acknowledged in this thesis.

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ABSTRACT

This paper explores the relationship between corporate governance and capital structure of listed firms in an emerging equity market, Oman. The study looked at 87 non-financial listed companies on the Muscat Securities Market and was examined by using multivariate regression analysis. Measurements of corporate governance employed are bankers on board, board ownership, and interlocking directorates. The impact of controlled variables like firm size, profitability and age on firms' financing mechanism were also investigated. The results revealed that interlocking directorates was significantly and positively correlated with debt to equity ratio. However, corporations' financing behavior was not found to be significantly influenced by board ownership. The results revealed that a banker on board was significantly and negatively correlated with ratio of debt to equity, suggesting the firms in Oman were usually large family-owned business groups with concentrated ownership. The board of directors (banker-directors) may serve the purpose of family controlling shareholders. Furthermore, banker-directors were influenced by the Arabic traditional values and norms (e.g., personal relations, preference for individuals from influential tribes, etc.) which might affect their orientations and behavior. However, control variables, firm profitability was found to have a significant and negatively associated with the capital structure. Firm size and firm age were not found to be significantly associated with the capital structure.

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CHAPTER ONE

BACKGROUND OF STUDY

1.0 Introduction

According to Omet and Mashharawe (2002), debt financing ratio in Oman (0.463) is considered higher than the other countries in the same region such as Jordan (0.377), Kuwait (0.327) and Saudi Arabia (0.261). However, comparing this ratio to the other developed countries such as the United States of America (0.58), Japan (0.69), Germany (0.73) and the United Kingdom (0.54), the percentage is lower. (Rajan & Zingales, 1995). This circumstance raises some significant questions since it has been empirically proven that there is an association between the ratio of debt financing and the existence of bankers on the board of directors (Guner et al., 2005; Dittmann et al., 2009; De Matos et al., 2009; Mitchell & Walker 2010). Therefore, this study tries to empirically and theoretically provide evidence on whether this association exists in Oman.

Generally, capital structure is the way a corporation finances its assets through some combination of equity, debt, or hybrid securities. In other words, the capital structure is how a firm finances its overall operations and growth using different sources of funds.

Currently, the issue of capital structure is one of the important issues that has attracted the attention of many researchers (see for example, Hasan & Butt, 2009; Saad, 2010; Huang

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