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

BY

AHMED SULTAN SALMEN BIN SARIMAN

UNIVERSITI UTARA MALAYSIA

2011
DOES CORPORATE GOVERNANCE AFFECT THE CAPITAL STRUCTURE DECISIONS OF OMANI LISTED COMPANIES?

A thesis submitted to the College of Business of Universiti Utara Malaysia

In Partial Fulfillment of the

Requirements for the degree

Of

Master of Science (International Accounting)

By

Ahmed Sultan Salmen Bin Sariman

Copyright © 2011 by

Ahmed Sultan Salmen Bin Sariman

All Rights Reserved.
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.

Ahmed Sultan Salmen Bin Sariman

800023

College of Business

Universiti Utara Malaysia

06010

Kedah

February, 2011
PERMISSION TO USE

In presenting this dissertation in partial fulfillment of the requirements for a postgraduate degree from Universiti Utara Malaysia, I hereby agree that the university library may make it freely available for inspection. I further agree permission for copying of this dissertation in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or, in his absence, by the Dean of College of Business. It is understood that any copying or publications or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my dissertation.

Request for permission to copy or to make use of material in this dissertation, in whole or in part, should be addressed to:

Dean of College of Business

Universiti Utara Malaysia

06010 UUM Sintok

Kedah Darul Aman

Malaysia
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.
AKNOWLEDGEMENTS

In the name of Allah, the most gracious and most merciful

Praise to Allah, Lord of the universe for his bounties bestowed upon us. Peace to Prophet Mohammed S.A.W. the sole human inspiration worthy of imitation.

My sincere thanks go to my family for their support. My father and my mother who supported me emotionally; my wife for her love, encouragement and sacrifice, especially whenever I needed her support to move forward. I am also deeply grateful to my brothers and my sisters for their encouragement especially on difficult days.

Firstly and foremost, I would like to express my sincere recognition to my supervisor Dr. Mohd.'Atef Bin Md Yusof without his encouragement, scholarly support and commitment of time, this work would not have come to completion.

I also would like to express my grateful appreciation to my lecturers whom have imparted me valuable knowledge and know-how during my studies for MSc (international Accounting) program. I also sincerely, acknowledge the help and valuable advices of my close friends.
# TABLE OF CONTENTS

DECLARATION......................................................................................................................i

PERMISSION TO USE........................................................................................................ ii

ABSTRACT .......................................................................................................................... iii

AKNOWLEDGEMENTS ................................................................................................. iv

TABLE OF CONTENTS .............................................................................................. v

LIST OF TABLES ........................................................................................................ vii

LIST OF FIGURES ......................................................................................................... viii

LIST OF EQUATION ...................................................................................................... ix

## CHAPTER ONE: BACKGROUND OF STUDY

1.0 Introduction .............................................................................................................1

1.1 Problem Statement ..............................................................................................3

1.2 Research Questions ............................................................................................5

1.3 Objectives of study ............................................................................................6

1.4 Significance of the study ......................................................................................6

1.5 Organization of the Thesis ...................................................................................8

## CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction ...........................................................................................................9

2.1 Dependent Variable ............................................................................................9

   2.1.1 Theoretical foundation ..............................................................................10

   2.1.2 Related Theories and Capital Structure ................................................12

2.2 Independent variables .......................................................................................14

   2.2.1 Bankers on board ..................................................................................14

   2.2.2 Interlocking directorates .......................................................................16
2.2.3 Board ownership ................................................................. 18

CHAPTER THREE: RESEARCH FRAMEWORK AND METHODOLOGY

3.0 Introduction ........................................................................... 23
3.1 Research Model ................................................................. 23
3.2 Research Design .................................................................... 25
  3.2.1 Data Collection ................................................................ 25
  3.2.2 Methodology of the Study ................................................. 26
  3.2.3 Operational Definition and Measurement of the Variables ........ 27

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.0 Introduction ........................................................................... 33
4.1 Descriptive Statistics ........................................................... 33
4.2 Multicollinearity .................................................................... 35
4.3 Correlation Analysis ............................................................ 36
4.4 Regression Analysis ............................................................. 38

CHAPTER FIVE: CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

5.0 Introduction ........................................................................... 43
5.1 Discussions and Summary of Research .................................. 43
5.2 Limitations of the Study ....................................................... 45
5.3 Recommendations for Future Research ................................. 46

REFERENCES ............................................................................. 47

APPENDICES ................................................................................ 55
APPENDIX A ................................................................................. 55
APPENDIX B ................................................................................ 57
LIST OF TABLES

Table 2.1: Summary of related Previous Studies on Capital Structure .........................20
Table 3.1: Operationalization of the Research Variables ..................................................32
Table 4.1 Summary of Descriptive Statistics ....................................................................34
Table 4.2 Variance Inflation Factor ..................................................................................36
Table 4.3 Correlation Matrix for All the Dependent Variables and Independent Variables .................................................................................................................................37
Table 4.4: Summary of the Regressions Model .................................................................38
Table 4.5: Result of Multiple Regression Analysis ............................................................39
Table 4.6: The Coefficients of Multiple Regression Analysis ............................................39
LIST OF FIGURES

Figure 1 Research Model Variables ......................................................................................24
LIST OF EQUATION

Equation Model .................................................................................................................26
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
The contents of the thesis is for internal user only
REFERENCES


Myers, S. Majluf, 1984, Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics, 13*(2), 187-221.


