

## DOES CORPORATE GOVERNANCE DRIVE CAPITAL STRUCTURE OF JOHANNESBURG LISTED COMPANIES?

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### ABSTRACT

*The aim of this paper is to investigate the effect of corporate governance factors such as Institutional Ownership, Independent Audit Committee and External Auditor Size on Capital Structure of listed companies at Johannesburg (South Africa) stock exchange. This study also included two variables (Profitability and firm Size) as control variables. The sample used in this study is 71 listed companies at Johannesburg (South Africa) stock exchange in 2010 which based on website of Johannesburg Market and their own websites. Moreover, the data used in this study is secondary data. The main source of data is the Johannesburg Stock Exchange (JSE). Information was collected from annual reports of the concerned listed companies from JSE library and also from the website of individual companies during the year of 2010. The study showed that Institutional Ownership, Independent Audit Committee and External Auditor Size significantly influenced capital structure. All coefficients of the independent variables have negative sign. This means that the higher the Institutional Ownership, Independent Audit Committee, and External Auditor Size the lower the capital structure. The same results are found when the Control Variables are including in the model.*

Key words: Institutional Ownership, Audit Committee Independence, External Auditor Size and Capital Structure

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### 1. Introduction

Because of series of corporate scandals that rocked American business between late 2001 and throughout 2002 such as WorldCom and Enron, corporate governance and the problem of financing (capital structure) received more consideration by numerous of researchers, and became a growing field of study. In response to the collapse of a number of high-profile firms, some regulations such as Sarbanes-Oxley Act (the Act or SOX hereafter) in July 2002 have been endeavored to enhance corporate governance and therewith encore public confidence. The Act has introduced significant changes in both management's reporting responsibilities and the scope and nature of the responsibilities of the auditor (Zhang, 2007). One of responsibilities of the auditor may impact in making process of financial decisions. Financial decisions play important role for both private and public sector. In contrast, every decision made in a business has financial implications, and any decision that involves the use of money is a corporate financial decision (Damodaran, 2010). Wisely, every economic entry should invest its resources and find the right and mix of financing to ensure that investments completely funded, and return cash to the owners if there are not enough good investments. This study is interested to investigate the role of corporate governance factors (Institutional Ownership, Independence of Audit Committee and External Auditor Size) on capital structure of listed firms at Johannesburg stock market. Because governance subject nowadays witnesses huge concerned and is in under discussion and debate by a number of interested especially post collapse some companies like Enron. This is the reason for conduct this subject as a field of study. In addition, the main aim of debt financing (Capital structure) as Grimsby & Grünfeld, (2009) said "is a need to highlight the importance of debt financing (capital structure) in the economy. Yet, the vast majority of pilot studies into the corporate governance mechanisms and its implications on funding decisions (capital structure) have been carried out in mature capital market environments (developed markets), such as the United States (US). In an emerging capital market (developing markets) such as African and Middle East countries, research dealing with the relationship between corporate governance and decisions on funding (capital structure) has been limited (Abor, 2008). (Al-Nodel & Hussainey, 2010). Therefore, this study will examine the effect of corporate governance factors on financing decisions (Capital Structure) in Johannesburg emerging capital market. As mentioned above, this study supposes hypothesis that corporate governance mechanisms (Institutional Ownership, Audit Committee Independence, and External Auditor

Size) has effect on capital structure. The core target of this work is to test whether there is nexus between trade finance (Capital Structure) and corporate governance characteristics. The study of linkage between corporate governance factors and capital structure is beneficial, not only to improve our knowledge about how companies will be financed but also to understand the key role of corporate governance properties and their impact on debt equity ratio of a firm. Therefore, the main objective of this theme is to contribute to the existing corporate governance literature by empirically analyzing the relationship between Institutional Ownership, Audit Committee Independence, and External Auditor Size and firm financing (Capital Structure) in Johannesburg, as in any emerging country in Africa. To the best of the authors' knowledge, this is the first study that utilizes real figures about corporate governance factors to investigate its effect on corporate funding (Capital Structure) for Johannesburg companies. Furthermore, it could be considered as the first effort to utilize corporate governance variables, as there is a lack of empirical evidence about the effect of corporate governance on corporate finance (Capital Structure). Finally this research attempts to answer this question regarding financing decisions (Capital Structure) "How do firms tend to have good financial decisions (capital structure)? This research uses some studies as primary reference such as study by (Abor, 2008). And (Al-Nodel & Hussainey, 2010). However, there are a very limited number of studies that have examined determinants of capital structure in developing countries and even fewer such studies may be found in the South Africa. To the best our knowledge, no study yet has examined the influence of corporate governance factors on capital structure decision in Johannesburg.

The researcher chooses South Africa for several reasons. Firstly, South Africa has witnessed considerable economic progress in recent years, despite the ongoing conflicts in the Africa region (Meersschaert, 2005). As South Africa is one of African countries which suffer from lack of corporate governance, the on-going reform of the financial market becomes essential to accelerate economic growth (Zvekcic, 2002). South Africa has recently started adopting several economic reforms, namely, privatization, open markets and a favorable investment climate to pave the way to stimulate the activity of the stock market, improve corporate governance and economic growth and foster international integration (Kerr 2010). As a result, the institutional ownership level has increased substantially. For this reason it becomes important to investigate the capital structure of listed companies in the South Africa stock market during the period of reform. This study contributes to the growing literature on corporate governance by analyzing the recent developments in the capital structure of publicly traded firms in South Africa, as one of the most important emerging market cases in Africa region. Specifically, the study measures the impact of corporate governance factors (Institutional Ownership, Audit Committee Independence, and External Auditor Size) on capital structure. Other reason, publicly traded companies in Johannesburg have a variety of characteristics that make them especially suited to the firm's ownership and firm value investigation. One of the most interesting and salient features of listed firms in JSE is the mixed nature of their ownership in some companies.

## 2. Research Significant & Motivation

Lack of corporate governance has been causing many financial tragedies as it is noted in many companies around the world. The main reason for selecting this topic was the need for investigations impact of corporate governance mechanisms on financial decision (capital structure) in the Johannesburg stock exchange other reason for would be:

- a. Rare studies about the corporate governance issues and its role for financing (capital structure).
- b. To figure out the effectiveness of corporate governance elements on financial decision (capital structure).

The motivation of this study is comes first corporate governance problems loom large as explanation of poor performance of corporate sector in emerging markets. Moreover, the ventures and companies face problem in financing their needs, at the same time financial market is under process of development.

## 3. Contribution Of Study

The writer hopes that the research will be beneficial for the writer himself and the reader generally. The benefits of the study are:

### a- Theoretically

The result of the research will be a contribution for the study of corporate governance, especially in financing of firm.

### b- Practically

For Financial manager: as a reference for the financial manager to estimate the effect of corporate governance factors on financial decisions.

c- For general: provide an understanding for the particularly the factors that affect of capital structure to companies industry in Johannesburg stock exchange.

The remainder of this paper is organized as follows. **Section 2:** describes literature review, hypotheses, capital structure theories and observed capital structure decision from previous empirical studies. **Section 3:** highlights on the methodology use of the research and the research design, also data collection will mainly depends on annual reports of

companies, and measurement issues. **Section 4:** summarizes the results from the empirical analysis. **Section 5:** presents discussion, conclusion and recommendation.

#### 4. Literature Review

The focus of this section is a review of related literature in terms of some studies that have been conducted to investigate and explain the effect of endogenous corporate governance elements and its implication on capital structure.

##### 4.1. Empirical Review

Some previous studies had been conducted about finance of firms (capital structure). One of them is study by (Lima, 2009) that examines the influence of various independent factors in the capital structure and the conformity of these factors with the predictions drawn by capital structure theories of the Pharmaceutical Companies in Bangladesh. The researcher used *agency cost of equity, growth rate, operating leverage, bankruptcy risk, tangibility and debt service capacity* as the determinants (independent variables) and *equity ratio* as dependent variable. The findings of that study are (by use Multiple regression model) Growth rate, operating leverage, tangibility and debt service capacity are *positively related* with the capital structure whereas agency cost of equity and bankruptcy risk show *negative relation*.

A study by (Kumar, 2005) investigates the firm financing patterns in India and the role of corporate governance mechanisms of 2000 listed companies from 1994 through 2000. He hypothesized that firm with poor corporate governance tend to have higher level of debt than equity. His results show corporate governance mechanisms (ownership structure) significantly influence the firm performance. The findings provide evidence that the distribution of equity ownership among directors and external shareholders has a significant relationship with debt equity ratio. Another study by Mutairi (2008) is interested to examine the effect of corporate governance, corporate financing decision, and ownership structure on firm performance. The study uses panel based regression approach; the analysis is based on a sample of 80 listed Kuwait Stock Exchange Market firms, over a period of 9 years, from 2000 to 2008. Findings suggest that there is no association between ownership structure (identity, types or mix) and firm performance, using both measures of firm performance, ROA and Tobin's Q. This study also finds that government ownership is insignificantly positively related to ROA using pool data. On other hand, the empirical evidence shows that ownership structure does not play an important role as determinants of the performance and value firms using panel regressions.

A study by (Litov, 2005) claims that firms with weak shareholder rights, as measured by the Gompers et al. (2003) governance index, actually use more debt finance and have higher leverage ratios. Also he found evidence that firms with weak shareholder rights have lower bond yields when issuing debt, enjoy higher credit ratings, and have a higher propensity to engage in conglomerating mergers. From another side, shows that firms with weak governance tend to engage in more diversifying mergers and acquisitions while firms with strong governance tend to engage in focusing transactions. This is consistent with evidence from the 1970s in Amihud and Lev (1981), which suggests that undiversified managers engage in risk-reducing activities, such as conglomerating mergers, to reduce their human-capital risk. It is also consistent with Bertand and Mullainathan (2003), who show that entrenched managers "enjoy the quiet life" by engaging in risk-reducing projects upon the adoption of the anti-takeover state law provisions.

According to study of (Arping & Sautner, 2010), a system-wide corporate governance reform, which is plausibly exogenous to the financing policies of individual firms, provides a natural experiment to overcome this problem. Their observation finds that Dutch firms significantly reduced their leverage following the passage of reform. While some empirical studies document that a negative relationship between managerial entrenchment and the use of debt finance (e.g. Garvey and Hanka, 1999) some more recent papers suggest the opposite (Wald and Long, 2007 and John and Litov, 2009). They proved also corporate governance improvements reduce the value of debt.

Study of (Chang, Dasgupta, & Hilary, 2009) set impact one of characteristics of corporate governance (auditor quality) on financing decisions. The findings find evidence that the difference in information asymmetry associated with high quality auditors affects the financing choices of companies. First, companies audited by large auditors are more likely to issue equity as opposed to debt and to have more equity in their capital structures. Second, companies tend to issue larger amounts of equity when market conditions are favorable. This association is significantly weaker for companies with Big 6 auditors. Third, the debt ratios of companies audited by Big 6 firms are less affected by market conditions.

As ownership structure one of corporate governance factors in current study, there is prior study by Michael & Sun (2010) that examines the effect of ownership structure on firms' leverage level. His empirical results show, in the sample of all companies the effect of ownership concentration on market leverage is negative, which is consistent with the argument that large shareholders are more averse to increasing the debt level, because of the risk of bankruptcy and financial distress. However, in firms with low ownership concentration the effect is positive. He also found that the change in firms' leverage around the security issuance is positively associated with the level of ownership concentration, indicating that firms with highly concentrated ownership are more likely to choose more debt and less equity issuance than are firms with dispersed ownership. Moreover, the impact of ownership concentration on firms' external finance decisions varies under different stock market conditions. The impact is insignificant when the stock market is cold, but exists under median and hot stock market conditions.

#### 4.2. Theoretical Framework

There are many theories explaining the behavior of corporate governance and capital structure of any country for the purpose of this study, the theories that are considered include agency theory and pecking order theory.

##### 4.2.1 Agency Theory

This research uses agency theory (Eisenhardt, 1989) as a theoretical foundation. Agency theory explains how to best organize relationships in which one party (the principal) determines the work, which another party (the agent) undertakes (Eisenhardt, 1989). The theory argues that under conditions of incomplete information and uncertainty, which characterize most business settings, two agency problems arise: adverse selection and moral hazard. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for which he is being paid. Moral hazard is the condition under which the principal cannot be sure if the agent has put forth maximal effort (Eisenhardt, 1989). The agency paradigms of Jensen and Meckling (1976) and Jensen (1986) in their seminal work is actually divided into two models. In the first model, Jensen and Meckling provide a model that shows that equity issuance leads to conflicts between agent and owners a second part provides another model that shows that debt financing also leads to conflicts between shareholders and debt holders. In accordance with above framework, an optimal capital structure can be obtained by trading off the agency cost of debt against the benefit of debt (Riahi-Belkaoui, 1999) Thus, agency theory supports the argument that better governance factors should result in better quality financial decisions (capital structure).

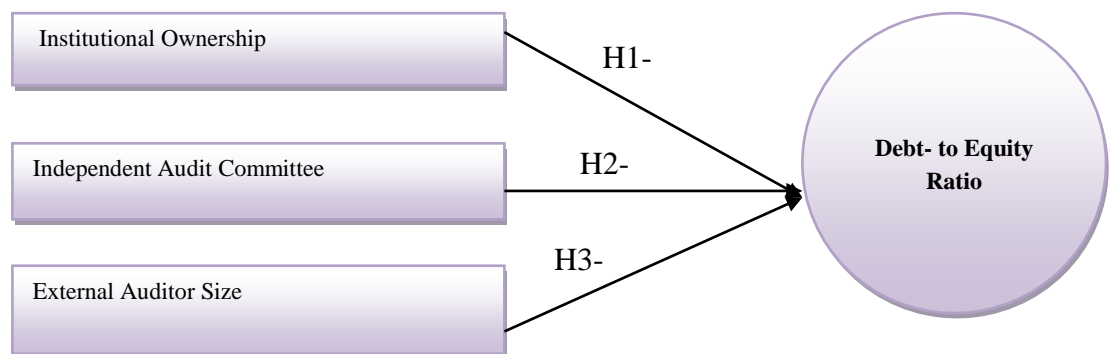
##### 4.2.2 Pecking Order Theory

According to (Shyam-Sunder & Myers, 1999) pecking order theory (also referred to as the information asymmetry theory) proposed that firms prefer to finance new investment, first internally with retained earnings, then with debt, and finally with an issue of new equity. Myers argues that an optimal capital structure is difficult to define as equity appears at the top and the bottom of the 'pecking order'. Internal funds incur no flotation costs and require no disclosure of the firm's proprietary financial information that may include firm's potential investment opportunities and gains result of undertaking such investments. To avoid the problem of poor investment, the managers seek to finance the new project using a security that is not undervalued by the market, such as internal funds or riskless debt. The pecking order theory is able to explain why firms tend to depend on internal sources of funds and prefer debt to equity if external financing is required.

#### 5. Conceptualization:

Based on the purpose of the study, the following theoretical model has been constructed. This model of corporate governance and capital structure introduces new constructs and uniquely combines them in specifying that the capital structure is a function of Institutional ownership, Audit committee independence, External auditor size, and two controls variables are firm size and profitability.

Figure 2. Theoretical Framework



## 6. Hypotheses Of The Study

The nature of relation between corporate governance and capital structure has been the core issue in the corporate governance literature. On other hand, this subject has been conducted in developed countries. Otherwise, limited research has been carried out to investigate the issue in business environment of developing countries. In the following paragraphs would be drafted three research hypotheses.

**Institutional Ownership:** one of the main determinants of capital structure decision is institutional ownership. (Javid & Iqbal, 2010) found the Institutional of ownership is negatively associated with need of external financing. The hypothesis tested is to find negative relationship between Institutional ownership and capital structure for Johannesburg listed companies. Based on above arguments, this study proposes, formally, following hypothesis:

**H1:** institutional ownership negatively effect on *debt-to-equity ratio*.

**Independence of Audit Committee Hypothesis:** agency theory posits an inherent moral hazard in principal-agent relations that gives rise to agency costs. For example, agents can adopt accounting procedures and methods that give favorable accounting results and which may maximize their own wealth under compensation and reward incentive schemes. An audit committee is one way to reduce this incentive problem as effective audit committees enhance the quality and credibility of annual audited financial statements; assists the work of the board of directors, which is charged with safeguarding and advancing the interests of shareholders. (Islam 2010). Uzun et al. (2004) found that higher audit committee independence resulted in a lower chance of fraud. So from the above results, it is obvious that audit committee play important role to improve performance of companies. *Second research hypothesis is:*

**H2:** independent audit committee negatively affect on *debt-to-equity ratio*.

**External Auditor Size Hypothesis:** (Ojo, 2014) Corporate governance aims to resolve problems which arise from the principal-agent relationship, whereby owners have an interest in maximizing the value of their shares – whereas managers tend to be more interested in the private consumption of firm resources and the growth of the firm. It addresses such problems through the contract drafting process and others measures which are developed. One measure which could contribute to corporate governance efforts in addressing the agency problem is the external auditor's involvement. Because of the important role of external auditor in financial services to prevent further corporate scandals such as Enron, the writer considers *the third hypothesis as following:*

**H3:** external auditor size negatively effect on *debt-to-equity ratio*.

## 7. Dataset And Methodology

The data used in this study is secondary data. The main source of data is the Johannesburg Stock Exchange (JSE). Information was collected from annual reports of the concerned listed companies from JSE library and also from the website of individual companies during the year of 2010.

## 8. Design Of The Variables: Operationalization And Measurement Of Variables

The variables used to operationalize the constructs include the corporate governance variables (institutional ownership, independent audit committee and external auditor size. Debt to equity ratio is considered as proxies for capital structure in the study, and indicates the efficiency of financing decisions. The model is modified below:

$$y = \alpha_1 + \beta_1 IO + \beta_2 ACI + \beta_3 EX \quad (1)$$

$$y = \alpha_1 + \beta_1 IO + \beta_2 ACI + \beta_3 EX + \beta_4 PROF + \beta_5 FS \quad (2)$$

Where:

y = is defined as total Debt divided by total Equity;  $\alpha$  is the intercept

IO = Institutional Ownership.

AC = Audit Committee Independence.

EX = External Auditor Size.

PROF = Profitability (Control Variable).

FS = Firm Size (Control Variable).

Hypothesis 1 will be supported if  $\beta_1$  negative and significant.

Hypothesis 2 will be supported if  $\beta_2$  negative and significant.

Hypothesis 3 will be supported if  $\beta_3$  negative and significant.

The following table gives a clear picture regarding the variables and measurements used in this study:

Table 01: Variables used to study the corporate governance practices in South Africa

Variables	Metrics	Symbols
<b>Corporate Governance</b>		
Institutional ownership	Total percentage of the company's shares that owned by the institutional of owners. The highest percentage of ownership.	IO
Audit Committee Independence	Measured as ratio of independent members to total members.	ACI
External Auditor Size	(Dummy variable Big 4): coded as 1 if affiliated with Ernst &Young, KPMG, Deloitte, Price Waterhouse Coopers, non Big 4: 0 otherwise.	EX
<b>Capital Structure</b>		
Debt –to- Equity Ratio	Total debt divided by total equity	DER
<b>Controls Variables</b>		
Profitability	Return on total assets (net profit divided by total assets) as a measure for firms' profitability.	PROF
Firm Size	Total asset as a measure for firm's size.	FS

## 9. Data Analysis

Quantitative approach has been utilized to the purpose of empirical analysis. The study mainly focused on the descriptive analysis, Multiple Regression Analysis, Independent sample t- test and Independent sample one-way Anova (f-test) as underling the statistical test. The Multiple Regression Analysis was used to find out the significant impact of corporate governance practices on the capital structure. The one-way Anova (f-test) and independent sample t-test were used to find out the significant difference in capital structure among corporate governance practices.

### 9.1. Descriptive Statistics

Descriptive statistics of data analyzed will be presented as follows:

TABLE 02: DESCRIPTIVE STATISTICS

Statistics Descriptive							
		DER	IO	AC	EXT AUDIT	PROFIT	SIZE
N	Valid	71	71	71	71	71	71
	Missing	0	0	0	0	0	0
Mean		107%	41%	74%	77%	16%	9,845,770.80
Mode		90%	18%	100%	100%	8%	2,914.00(a)
Std. Deviation		82%	24%	33%	42%	18%	32,878,227.16
Skewness		182%	36%	-93%	-134%	248%	4.30
Std. Error of Skewness		28%	28%	28%	28%	28%	0.28
Kurtosis		429%	-145%	-45%	-20%	583%	18.71
Std. Error of Kurtosis		56%	56%	56%	56%	56%	0.56
Minimum		1%	10%	25%	0%	0%	2,914.00
Maximum		440%	85%	100%	100%	90%	193,884,195.00

a. Multiple modes exist. The smallest value is shown

Source: data processed, 2011

It can be seen from the table 2 that DER (Y) is in average point (mean) of 107% which means that the capital structure of the companies are almost in equal point between debt and equity. There is even minimum value of the DER which is 1% and maximum value which is 440%. The majority (mode) are 107%. This means that debt still play important roles in the capital structure at the companies in South Africa. It also can be seen from the table 2 that the highest Institutional Ownership (IO) is in average point of 41% which means that the institution almost holds the majority of

ownership of companies in South Africa. There is even minimum value of the highest Institutional Ownership in the companies which is 10% and maximum value which is 85% (almost 100%). The majority of the highest ownerships of the institutions are 18%. This means that there are still rare institutions hold majority ownership of companies in South Africa. From the same table, it also can be seen that the independent audit committee (AC) is in average point of 74%, this means around 3 from 4 members of audit committee are independent members. Although there are still 25% from audit committees which consist of independent members for minimum proportion, and there are also companies which their all audit committee's members consist of 100% independent ones for maximum proportion. The majority of companies in the sample have 74% members of audit committee from independence. Therefore, as (Uzun, Szewczyk, & Varma, 2004) found that the higher audit committee independence resulted in a lower chance of fraud. The table 2 also shows that the majority (mode) of the external auditors (Ext Audit) in South Africa are from Big Four Audit Companies. Although there are some of them are not from the Big Four Audit Companies. This means that the important role of external auditor in financial services (which has international record such as the Big Four) will prevent further corporate scandals. Also it can be seen from the same table that profitability (Profit) of companies in South Africa is in average (mean) point of 16%. However, the minimum value is 0% and maximum is 90%. The majority (mode) of profitability of companies are 8%. This means that the profitability of companies in South Africa is low. From same table can see that companies' size in South Africa is in average (mean) of 9,845,770 (South African rand). However, the minimum size is 2,914 (South African rand) and the biggest size is of 193,884,195 (South African rand). However in the data analysis Size will be counted into LN Size to make the data in normal distribution.

## 10. Conclusion

Based on the research, it can be concluded that there are some findings that:

First, the result of first hypothesis shows significant influence for Institutional ownership (X1) to DER (Y). Therefore first hypothesis "Institutional ownership negatively affect on debt-to-equity ratio" was accepted. Second, the result of second hypothesis shows significant influence for independent audit committee (X2) to DER (Y). Therefore second hypothesis, "independent audit committee negatively affect on debt-to-equity ratio" was also accepted. Third, the result of third hypothesis test shows significant influence for the external auditor size (X3) to DER (Y). Therefore third hypothesis, "external auditor size negatively affect on debt-to-equity ratio" was also accepted. Finally, both control variables that used in this research: profitability and firm's size also have significant influence to DER (Y).

## 11. Managerial Implication

Based on the research, some findings can give some implication to management as follows:

- a. As average number of the highest institutional ownership is below the medium level, or no institution is really dominance in its interest to the company so it is hoped that the management will be more independent in working for deciding its capital structure whether using more debt or publishing new stocks which of course must consider to the cost of capital which finally make the firm performance better and also growth.
- b. As average of the total number of independence member of audit committee is above the medium level, so it is hoped that they will work really independently. As all ready stated above higher independence of audit committee resulted in a lower chance of fraud. It is clear that audit committee plays important role to improve performance of companies.
- c. As it is found in this research that almost all companies used the audit service from external auditor in this case the qualified one—The Big Four Audit Firm, this implies that the problems which arise from the principal-agent relationship could be lowered by corporate governance efforts in term of the external auditor's involvement. Because of the important role of external auditor in financial services will prevent further corporate scandals. .
- d. As the average profitability is lower so that it has to be increased by consistent implementation good corporate governance in term of more number of Institutional Ownership, Independent Audit Committee, and external auditor size. As it is known that good corporate governance will increase company profitability.
- e. As average number of DER is more the same with the equity, it must be reconsider again by all stakeholders of the companies about its cost of capital. The implementation of good corporate governance could monitor the right composition of DER which finally is hoped to make the firm performance better and also growth.

## 12. Limitations of the Research

Certain limitations appear as follows:

1. This study is conducted only in companies in South Africa; the results of the research may not be applicable to other countries. The different situation of economic, politics and culture may cause differences in the results. There will be a need to replicate the study in other national context.
2. This study only measure corporate governance in term Institutional Ownership, Independent Audit Committee, and external auditor size, future research could determine more independent variables.
3. Secondary data is the only information for this research. Alternative approaches such as an interview survey may allow the researcher to broaden and gain an in-depth knowledge in the area of good corporate governance and company's financing policy.

### 13. Suggestion for Future Research

Recommendations for future research might take place as follows:

Future research that will develop the same topic as this study may be conducted in more than one country (cross-national research) for comparison so that the result may be applicable for among the countries researched and could find deeper reason behind different result from each country which may exist. In addition, next research could determine more independent variables such as number of disclosure, board structure and activities, financial report exposure, and the other corporate governance factors. Finally, secondary data should be not the only information for the research. Alternative approaches such as an interview survey may be taken to broaden and gain an in-depth knowledge in the area of good corporate governance and company's financing policy.

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### Output SPSS –Data Analysis

#### Frequencies

		Statistics					
		DER	IO	AC	EXT AUDIT	PROFIT	size
N	Valid	71	71	71	71	71	71
	Missing	0	0	0	0	0	0
Mean		1.0720	.4096	.7240	.7746	.1599	9845771
Mode		.90	.18 <sup>a</sup>	1.00	1.00	.08 <sup>a</sup>	2914.00 <sup>a</sup>
Std. Deviation		.82184	.23769	.32739	.42079	.18297	3,3E+07
Skewness		1.816	.356	-.732	-1.343	2.482	4.302
Std. Error of Skewness		.285	.285	.285	.285	.285	.285
Kurtosis		4.290	-1.453	-.791	-.202	5.829	18.705
Std. Error of Kurtosis		.563	.563	.563	.563	.563	.563
Minimum		.01	.10	.00	.00	.00	2914.00
Maximum		4.40	.85	1.00	1.00	.90	1,9E+08

a. Multiple modes exist. The smallest value is shown

#### Regression Model 1 (without control variables)



**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.447 <sup>a</sup>	.200	.164	.75130	1.273

a. Predictors: (Constant), EXT AUDIT, IO, AC

b. Dependent Variable: DER

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.461	3	3.154	5.587	.002 <sup>a</sup>
	Residual	37.818	67	.564		
	Total	47.279	70			

a. Predictors: (Constant), EXT AUDIT, IO, AC

b. Dependent Variable: DER

**Hypothesis Test & Multicollinearity Test in Regression Model 1**

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.442	.311		4.638	.000		
	IO	-.907	.378	-.262	-2.398	.019	.997	1.003
	AC	-.595	.275	-.237	-2.165	.034	.996	1.004
	EXT AUDIT	-.554	.213	-.284	-2.594	.012	1.000	1.000

a. Dependent Variable: DER

**NPar Tests for Normality in Regression Model 1**

**One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		71
Normal Parameters <sup>a,b</sup>	Mean	-.0845070
	Std. Deviation	.53472957
Most Extreme Differences	Absolute	.083
	Positive	.083
	Negative	-.051
Kolmogorov-Smirnov Z		.699
Asymp. Sig. (2-tailed)		.713

a. Test distribution is Normal.

b. Calculated from data.

**Glejster Test for Regression Model 1**

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.583	.142		4.116	.000
	IO	-.245	.172	-.166	-1.420	.160
	AC	-.098	.125	-.092	-.785	.435
	EXT AUDIT	-.186	.097	-.223	-1.910	.060

a. Dependent Variable: absre1

**Regression Model 2 (with 2 control variables)**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.559 <sup>a</sup>	.312	.259	.70725	1.110

a. Predictors: (Constant), LN SIZE, IO, EXT AUDIT, AC, PROFIT

b. Dependent Variable: DER

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	14.766	5	2.953	5.904	.000 <sup>a</sup>
	Residual	32.513	65	.500		
	Total	47.279	70			

a. Predictors: (Constant), LN SIZE, IO, EXT AUDIT, AC, PROFIT

b. Dependent Variable: DER

**Hypothesis Test & Multicollinearity Test in Regression Model 1**

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
2	(Constant)	.186	.497		.374	.710		
	IO	-.877	.356	-.254	-2.459	.017	.995	1.005
	AC	-.756	.269	-.301	-2.813	.006	.925	1.082
	EXT AUDIT	-.431	.206	-.221	-2.092	.040	.951	1.051
	PROFIT	1.167	.492	.260	2.369	.021	.880	1.136
	LN SIZE	.067	.028	.253	2.447	.017	.989	1.011

a. Dependent Variable: DER

**NPar Tests for Normality in Regression Model 2**

**One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		71
Normal Parameters <sup>a,b</sup>	Mean	-.0563380
	Std. Deviation	.53565138
Most Extreme Differences	Absolute	.135
	Positive	.135
	Negative	-.081
Kolmogorov-Smirnov Z		1.135
Asymp. Sig. (2-tailed)		.152

a. Test distribution is Normal.

b. Calculated from data.

**Glejster Test for Regression Model 2**

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
2	(Constant)	.450	.259		1.737	.087
	IO	-.224	.186	-.146	-1.203	.233
	AC	-.142	.140	-.127	-1,011	.316
	EXT AUDIT	-.060	.107	-.070	-.563	.576
	PROFIT	.159	.257	.080	.619	.538
	LN SIZE	-.004	.014	-.031	-.251	.802

a. Dependent Variable: absres2

**Frequency of Companies' in Every Sector**

**SECTR OF COMP**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agriculture & Food Industries	7	9,9	9,9	9,9
	Building & Construction	2	2,8	2,8	12,7
	Clothing	2	2,8	2,8	15,5
	Construction and Building Materials	4	5,6	5,6	21,1
	General Retailers	5	7,0	7,0	28,2
	Manufacturers	7	9,9	9,9	38,0
	Media and Entertainment	4	5,6	5,6	43,7
	Mining	16	22,5	22,5	66,2
	Pharmaceuticals and Biotechnology	1	1,4	1,4	67,6
	Steel and Other Metals	8	11,3	11,3	78,9
	Support Services	8	11,3	11,3	90,1
	Telecommunication & IT	5	7,0	7,0	97,2
	Transport	2	2,8	2,8	100,0
	Total	71	100,0	100,0	

Data of Research

No	Company Name	DER	Ownership	Audit Committee	Ext Aud	PROF	Size	LN 1	Sector	Res1	Absres1	Res2	Absres2
1	ADVTECH LIMITED	0,45	0,18	1	1	0,15	9.846	9	Support Services	-0,86971	0,86971	-0,68467	0,68467
2	AFGRI LIMITED	2,71	0,11	1	1	0,06	8.477.624	16	Agriculture & Food Industries	1,32677	1,32677	1,14687	1,14687
3	AFRICAN OXYGEN LIMITED	0,94	0,5	1	1	0,02	5.286	9	Mining	-0,08934	0,08934	0,23751	0,23751
4	A E C I LIMITED	1,3	0,41	1	0	0,06	10.314	9	Support Services	-0,36476	0,36476	0,04102	0,04102
5	ACUCAP PROPERTIES LIMITED	0,2	0,14	0	1	0,01	7.378.157	16	Building & Construction	-0,56118	0,56118	-0,52764	0,52764
6	ADAPTIT HOLDINGS LIMITED	1,47	0,17	1	1	0,13	124.740.682	19	Telecommunication & IT	0,14121	0,14121	-0,32454	0,32454
7	ADCORP HOLDINGS LIMITED	0,84	0,27	0,33	1	0,06	1.671.796	14	Support Services	0,00049	0,00049	0,05587	0,05587
8	AFRICAN AND OVERSEAS ENTERPRISES LD	0,24	0,36	1	1	0,1	290.294	18	Clothing	-0,91638	0,91638	-0,94833	0,94833
9	AFRICAN MEDIA ENTERTAINMENT LIMITED	0,6	0,8	0,5	1	0,17	140.745	12	Media and Entertainment	0,14031	0,14031	0,16088	0,16088
10	AFRICAN RAINBOW MINERALS LIMITED	0,52	0,71	1	1	0,07	28.233	10	Mining	-0,31878	0,31878	-0,1242	0,12420
11	AFRIMAT LIMITED	0,5	0,66	1	1	0,09	1.772.800	14	Steel and Other Metals	-0,38415	0,38415	-0,47648	0,47648
12	ALLIED ELECTRONICS CORPORATION LTD	0,97	0,18	0,5	1	0,07	12.527	9	Telecommunication & IT	-0,05230	0,05230	0,30994	0,30994
13	ALLIED TECHNOLOGIES LIMITED	0,94	0,57	1	1	0,12	5.070	9	Telecommunication & IT	-0,02582	0,02582	0,18219	0,18219
14	ANGLO AMERICAN PLC	0,76	0,75	1	0	0,12	66.656	11	Mining	-0,59624	0,59624	-0,40585	0,40585
15	ARCELORMITTAL SOUTH AFRICA LIMITED	0,41	0,67	1	1	0,04	31.718	10	Steel and Other Metals	-0,46507	0,46507	-0,23659	0,23659
16	ARGENT INDUSTRIAL LIMITED	0,57	0,71	0	1	0,9	1.971.600	14	Steel and Other Metals	0,32606	0,32606	-0,55689	0,55689
17	ASPEN PHARMACARE HOLDINGS LIMITED	0,82	0,69	1	1	0,1	19.801	10	Pharmaceuticals and Biotechnology	-0,03693	0,03693	0,12326	0,12326
18	ASSORE LIMITED	0,78	0,53	0,33	1	0,26	3.720.083	15	Mining	0,17583	0,17583	-0,07545	0,07545
19	ASTRAL FOODS LIMITED	1,16	0,58	1	1	0,12	3.128.298	15	Agriculture & Food Industries	0,20326	0,20326	0,00628	0,00628
20	ASTRAPAK LIMITED	1,03	0,29	0,5	1	0,07	2.015.976	15	Manufacturers	0,10752	0,10752	0,05819	0,05819
21	AUSTRO GROUP LIMITED(Infrastructure)	0,18	0,25	0,33	1	0,04	645.563	13	Steel and Other Metals	-0,67825	0,67825	-0,5293	0,52930
22	AVENG LIMITED	0,97	0,14	1	1	0,08	24.142	10	Steel and Other Metals	-0,38601	0,38601	-0,1855	0,18550
23	AVI LIMITED	0,9	0,15	0,33	1	0,08	5.618	9	Agriculture & Food Industries	-0,04899	0,04899	0,32161	0,32161
24	AVUSA LTD(media )	0,84	0,26	0,5	1	0,06	2.914	8	Media and Entertainment	0,10970	0,10970	0,32567	0,32567
25	BASIL READ HOLDINGS LIMITED	1,6	0,1	0,67	1	0,06	4.377.471	15	Mining	0,40399	0,40399	0,34487	0,34487
26	BAUBA PLATINUM LIMITED	2,4	0,23	0	0	0,71	36.307	10	Mining	1,16673	1,16673	0,91291	0,91291
27	BELL EQUIPMENT LIMITED	0,9	0,68	1	1	0,01	2.645.280	15	Mining	0,03400	0,03400	0,04005	0,04005
28	BLUE LABEL TELECOMS LIMITED(	0,68	0,75	1	1	0,1	4.448.302	15	Support Services	-0,12248	0,12248	-0,30137	0,30137
29	EFFICIENT GROUP LIMITED	0,15	0,24	0,67	0	0,05	89.955	11	Support Services	-1,47273	1,47273	-1,13189	1,13189
30	EVRAZ HIGHVELD STEEL & VANADIUM LTD	0,62	0,85	0,2	1	0,14	4.063	8	Steel and Other Metals	0,38413	0,38413	0,75615	0,75615
31	EXCELLERATE HOLDINGS LIMITED	1,17	0,19	0,5	1	0,6	475.528	13	General Retailers	0,15678	0,15678	-0,37297	0,37297
32	GOLD ONE INTERNATIONAL LIMITED	1,05	0,21	1	1	0,08	183.081	12	Manufacturers	-0,24249	0,24249	-0,17903	0,17903
33	GRINDROD LIMITED	1,05	0,18	0,33	1	0,06	14.251.662	16	Transport	0,12823	0,12823	0,05367	0,05367
34	HARMONY GOLD MINING COMPANY LIMITED	0,34	0,15	0,33	1	0,08	5.141	9	Mining	-0,60840	0,60840	-0,23309	0,23309
35	HOSKEN CONSOLIDATED INVESTMENTS LTD	1,25	0,77	1	0	0,07	18.870.424	17	Support Services	-0,08809	0,08809	-0,24582	0,24582
36	HYPROP INVESTMENTS LIMITED	1,12	0,76	0,75	0	0,05	11.457.385	16	General Retailers	-0,07845	0,07845	-0,10375	0,10375
37	ILIAD AFRICA LIMITED	1,08	0,75	1	1	0,2	2.187.460	15	Building & Construction	0,27752	0,27752	-0,01805	0,01805
38	IMPALA PLATINUM HOLDINGS LIMITED	0,37	0,4	1	1	0,08	62.571	11	Mining	-0,75008	0,75008	-0,62504	0,62504
39	KEATON ENERGY HOLDINGS LIMITED	0,04	0,56	0,33	1	0,14	1.871.900	14	Mining	-0,53695	0,53695	-0,58169	0,58169
40	KELLY GROUP LIMITED	1,6	0,29	1	0	0,15	625.199	13	Support Services	-0,17365	0,17365	-0,13895	0,13895
41	LEWIS GROUP LIMITED	0,48	0,63	0,5	0	0,12	4.858	8	General Retailers	-0,68771	0,68771	-0,21094	0,21094
42	LONMIN PLC	0,57	0,25	0,25	1	0,03	4.824	8	Manufacturers	-0,24007	0,24007	0,27079	0,27079
43	THABEX LIMITED	0,82	0,73	0,5	1	0,14	20.536.150	17	Manufacturers	0,29679	0,29679	0,0173	0,01730
44	THE FOSCHINI GROUP LIMITED	0,68	0,16	0,71	1	0,13	9.237	9	General Retailers	-0,48536	0,48536	-0,22976	0,22976
45	THE SPAR GROUP LIMITED	2,44	0,13	1	0	0,62	7.529	9	General Retailers	0,52116	0,52116	0,28219	0,28219
46	TIGER BRANDS LIMITED	0,51	0,81	1	0	0,17	12.984	9	Agriculture & Food Industries	-0,79179	0,79179	-0,52671	0,52671
47	TONGAAT HULETT LIMITED	1,46	0,28	1	1	0,63	13.368	10	Agriculture & Food Industries	0,23103	0,23103	-0,21452	0,21452
48	TRANS HEX GROUP LIMITED	0,01	0,28	0,67	1	0,15	215.185	12	Mining	-1,01968	1,01968	-0,98703	0,98703
49	TRANSPACO LIMITED	0,9	0,17	0,67	1	0,13	491.977	13	Construction and Building Materials	-0,23249	0,23249	-0,24055	0,24055
50	PINNACLE TECHNOLOGY HOLDINGS LTD	1,33	0,21	1	0	0,11	1.254.831	14	Telecommunication & IT	-0,51625	0,51625	-0,49985	0,49985
51	TRUWORTHS INTERNATIONAL LIMITED	0,24	0,5	0,5	1	0,3	5.409	9	Clothing	-0,49192	0,49192	-0,41143	0,41143
52	UNIVERSAL INDUSTRIES CORP LTD	0,9	0,2	1	1	0,08	784.801	14	Manufacturers	-0,40157	0,40157	-0,47152	0,47152
53	VALUE GROUP LIMITED	1,2	0,41	0,5	0	0,09	1.064.225	14	Support Services	-0,16735	0,16735	-0,05345	0,05345
54	VERIMARK HOLDINGS LIMITED (6 months)	1,42	0,53	1	1	0,2	137.495.211	19	Media and Entertainment	0,41789	0,41789	-0,14066	0,14066
55	VILLAGE MAIN REEF LIMITED	0,32	0,77	0,67	1	0,32	74.968	11	Mining	-0,26804	0,26804	-0,38143	0,38143
56	VIVIDEND INCOME FUND LIMITED	2,22	0,13	0,33	0	0,09	94.806.300	18	Construction and Building Materials	0,69970	0,69970	0,57978	0,57978
57	VODACOM GROUP LIMITED	1,85	0,65	1	1	0,04	41.691	11	Media and Entertainment	0,95678	0,95678	1,12076	1,12076
58	VUKILE PROPERTY FUND LIMITED	3,8	0,31	1	0	0,38	5.625.569	16	Construction and Building Materials	1,04450	1,04450	1,60788	1,60788
59	PALABORA MINING COMPANY LIMITED	2,42	0,58	1	1	0,08	7.579	9	Mining	1,46326	1,46326	1,71762	1,71762
60	WESIZWE PLATINUM LIMITED	4,4	0,27	1	1	0,12	2.572.291	15	Mining	0,16195	0,16195	0,97456	0,97456
61	WILSON BAYLY HOLMES-OVCON LIMITED	1,9	0,29	0,75	0	0,11	9.358.093	16	Steel and Other Metals	0,27506	0,27506	0,19426	0,19426
62	WINHOLD LIMITED	1,63	0,21	0,25	0	0,74	702.705	13	Manufacturers	0,22988	0,22988	-0,30084	0,30084
63	WITWATERSRAND CONS GOLD RESOURCES	1,04	0,18	1	1	0,04	193.884.195	19	Mining	-0,27971	0,27971	-0,64077	0,64077
64	WOOLWORTHS HOLDINGS LIMITED	0,81	0,17	1	1	0,14	9.010	9	Agriculture & Food Industries	-0,51879	0,51879	-0,32176	0,32176
65	YORK TIMBER HOLDINGS LIMITED	0,66	0,29	1	1	0,02	3.267.052	15	Construction and Building Materials	-0,55990	0,55990	-0,63123	0,63123
66	ZCI LIMITED	0,13	0,72	0	1	0,12	141.488	12	Mining	-0,10487	0,10487	0,05686	0,05686
67	REUNERT LIMITED	0,78	0,15	1	1	0,11	7.953	9	Telecommunication & IT	-0,56694	0,56694	-0,33429	0,33429
68	RAINBOW CHICKEN LIMITED	0,67	0,62	1	1	0	4.415.856	15	Agriculture & Food Industries	-0,25045	0,25045	-0,30864	0,30864
69	BARLOWORLD LIMITED	1,4	0,14	1	1	0,33	25.690	10	Transport	0,04399	0,04399	-0,04719	0,04719
70	RAUBEX GROUP LIMITED	0,69	0,64	0,33	1	0,15	3.826.410	15	Steel and Other Metals	0,18624	0,18624	0,06007	0,06007
71	Howden	2,91	0,48	0,67	1	0,1	674.816	13	Manufacturers	0,05881	0,05881	0,07618	0,07618