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EDITED BY
Waseem ul Hameed
The Islamia University of Bahawalpur, Pakistan

***CORRESPONDENCE**
Kashif Saeed
saeedkashif21@yahoo.com

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ACADEMIC PAPER

Impact of Corporate Governance on Capital Structure; Evidence from Pakistan

Kashif Saeed[1*], Muhammad Saeed Iqbal[2], Alhaji Ali Tijjani[3]

[1]Putra business school, University of Putra Malaysia, Malaysia.
Email: saeedkashif21@yahoo.com
[2]Islamic Business School, Utara Universiti of Malaysia, Malaysia.
Email: iqbaliub4@gmail.com
[3]Accounting Department, Yobe State University, Nigeria.
Email: aatij55@yahoo.com

ABSTRACT

A GMM analysis is conducted on the long-term debt ratio of non-financial listed companies on the Pakistan Stock Exchange for 2013–2022. Board meetings, the dual role of chief executive officers, short-term debt, and committee work positively affect the long-term debt ratio. So, it's reasonable to assume that companies with more short-term debt, more frequent board meetings, CEO duality, and active board committees will also have more long-term debt. However, when an internal auditor is present, the long-term debt ratio tends to be lower. Additionally, a positive and statistically significant association exists between the long-term debt ratio and control variables such as Tobin's Q, ROA, and ROE. This suggests that firms with greater market valuations and profitability metrics have higher long-term debt. Diagnostic statistics verify the model's robustness by verifying the validity of the over-identifying restrictions and the absence of substantial autocorrelation in the residuals. This investigation enhances comprehension of the dynamics of financial structure and corporate governance in the context of an emerging market.

KEYWORDS

Corporate Level Management, CEO Duality, Board Committees, Board Meetings, Tobin's Q

INTRODUCTION

Berl and Means conducted the initial research on the subject of "corporate governance." Discourse that firms are distinct from proprietors is permissible. Moslemipour and Garkaz (2013) contend that all firms are distinct from their proprietors and have distinct authorized bodies. A company interacts with its stakeholders. The most critical agreement that a company enters into is with its shareholders, although there are numerous others. Agency theory serves as the foundation for this significant agreement. According to Garkaz et al. (2016), shareholders assign all matters, the management and operations of the corporation to the board of directors. More dividends or earnings per share would be a welcome return for investors. A fact that cannot be denied is the board of directors' commitment to maximizing the firm's revenues, but they also must provide shareholders with greater wealth. Agency expense is the term used to describe the expense in this contract.

The economy's expansion is contingent upon the implementation of effective corporate governance practices. To improve the firm's performance, income, and wealth, Sheikh (2019) argues that corporate governance qualities are essential. Everyone agrees that a company's level of corporate authority affects the way its capital is structured. The fundamental and main goal of any business is to maximize profits for its shareholders. Corporate authority instruments protect it. A prior study asserts that traits associated with corporate power play a significant role in shaping the principles of corporate governance that inspire the company's top brass. How elements of corporate control impacted Pakistan's choice of capital was the focus of a focused, practical inquiry. "Board size, board meeting, board committee, CEO duality, and internal auditor," was one of the criteria cited by Akbari (2017). Companies whose stock is traded on the Karachi Stock Exchange are bound by the limitation. Firms that possess a capital structure that is both effective and robust can readily access the capital marketplace (Rahman & Khatun, 2017).

Ahmadpour et al. (2015) proposed that the leverage attribute of corporate governance may be beneficial in resolving the conflict between shareholders and management. High leverage indicates a firm's increased business risk, while lower leverage indicates a firm's decreased business risk. Similarly, a firm's increased debt will result in greater financial leverage and increased financial risk. While many industrialized and established nations have conducted extensive research on the links between "capital structure and corporate governance," Pakistan has done little to none of that. Corporate governance primarily seeks to resolve two sorts of conflicts. An agency problem is the initial description of a conflict between shareholders and executives or management. Conflicts can also arise when there is animosity between the company's majority and minority shareholders (Gull et al., 2023). Khan et al. (2022) asserted that corporate governance characteristics safeguard shareholders' wealth. With the assistance of "corporate governance" attributes, the organization can establish a more effective structure and formulate a more effective strategy. The use of leverage is a tool in corporate governance that can facilitate conflict resolution between management and shareholders. Because increased risk is associated with leverage, a lower level of leverage is preferable for a company's financial health. The same holds for financial risk and leverage: when debt levels rise, so do those problems.

LITERATURE REVIEW

Corporate governance tools' effectiveness is affected by numerous aspects, as mentioned in the literature. Numerous studies in various fields are currently examining the effectiveness of corporate governance tools linked to publicly traded corporations (Moslemipour & Garkaz, 2013), which is the primary concern. It is acknowledged that the economy of the nation and the performance of a firm can be enhanced by the implementation of sound corporate governance. By employing effective corporate authority instruments, organizations may increase their investments. According to Gull et al. (2023), Businesses can show transparency when they deal with investors and creditors by leveraging their corporate power. Maintaining a high level of corporate power allows a firm to deter dishonesty. The impact of corporate control features, such as "board size, board structure, board meeting, board committee, managerial ownership, firm size, CEO duality, and institutional shareholders ownership," research on the capital selections of businesses listed on the Karachi stock exchange in Pakistan is currently limited to anecdotal evidence (Akbari, 2017). Firms that possess a capital structure that is strong and efficient can readily access the capital marketplace. Corporate governance primarily resolves two categories of conflicts. Initially, an agency problem is employed to describe a dispute between shareholders and management/executives. According to Gull et al. (2023), the second type of conflict involves disagreements between majority and minority owners.

Underpinning Theories

Researching how corporate governance affects capital structure can be theoretically supported by agency theory, trade-off theory, and pecking order theory. In agency theory it is for this reason believed that disagreements between the administrators/agents and the shareholders/principals are most likely to cause inept choices about financial decisions inclusive of capital structure decisions. Practical examples of such methods are in place in many companies, for example board of directors that is strong and supervision organs which are very rigorous as a way to ensure that managers goals are aligned to that of the shareholders. This may lead to a decrease in agency costs and an impact on the choice of the company's capital structure (Jensen & Meckling, 1976). Increased managerial responsibility and reduced chances of appropriation by managers will mean that organizations with better governance have lower debt levels (Shahid et al., 2020).

Myers and Majluf's pecking order theory states that companies would choose to use their own money instead of seeking capital from outside sources (1984). Hence, when there is a need to source capital from the outside, debt is preferable since it alleviates the problem of asymmetric information. Effective corporate governance may help to minimize information asymmetry by enhancing the practices of disclosure and transparency, whereby; it facilitates ease of firms' access to the equity markets at a lower cost with an impact on the firms' capital structure (Ali et al., 2020).

Based on the trade-off approach, companies pay a price for financial difficulty about the tax advantages of debt financing. Regarding monetary resources and, thus enabling firms to properly manage their leverage ratios, corporate governance can lower the costs of financial distress and improve managerial decision-making as well as operational effectiveness. Consequently, these theories can provide a structure for understanding the factors characterizing the peculiarity of the emerging markets in favor and against the rules when considering corporate governance reforms in the capital structure in the context of Pakistan.

Capital Structure

Similarly, prior literature clearly stated the fact that capital structure is one of the most influential corporate governance variables affecting various firms' decisions, of which profitability is not an exception. Another essential prudential choice that directly influences the financial plan of any organization is the choice of capital that is efficient and beneficial. Debt's effectiveness is contingent upon several critical variables. Crucial elements include capital markets, corporate supremacy, financial intermediaries, and legal protections granted by the court. The state of a nation's economy is affected by numerous significant factors. The firm's size is an important factor. The majority of CEOs do not have any debt because of the company's massive size (Taziki et al., 2023). Any company's monetary and financial position can be defined by two things. Priorities include a company's current assets and cash on hand and its liabilities and debt. A broad variety of activities are engaged in by enterprises in pursuit of wealth creation, development, and income. A lot of writers and business owners think that money is one of the most significant things that might affect a company's core (Sheikh, 2019). Not all profitable and expanding organizations allocate their profits to their operations or to provide compensation to their executives and shareholders. To maintain its existence, it is necessary to reinvest in the business (Mousavi & Iranban, 2019). Therefore, the majority of the firms are not reliant on the debt market as a result of environmental ambiguity, inadequate security provided by a court, and insufficient financial intermediaries (Wang et al., 2020). Nevertheless, the capital arrangement and the firm's value are distinct. The capital structure does not determine the firm's value. The 19th century saw the birth of this monumentally important question. To find the answer to this question, many scholars study the factors that influence a business's capital structure to find out about the factors that affect the capital structure. If the assumptions of Modigliani and Miller are correct, then there should be no insolvency costs, no revenue taxes, no agency costs, and regularity of information among capital market participants. The work of Modigliani and Miller prompted a flurry of academic interest in the factors that determine capital structure. Giglio (2022) examined several critical variables that influence capital structure. The following factors are considered: "board size, board meeting, board committee, CEO duality, and internal auditor."

Operators linked to firms that use ineffective management and corporate governance likely aim for greater profits, according to research on the link between management tools and agency risk

(Ahmadpour et al., 2015). Control devices are also crucial in the enhancement of the integrity of financial information. For example, given that companies are subject to profit guidance enforcement measures by the Investments and Security Exchange Commission of Pakistan (SECP), Jami and Koloukhi (2018) are more likely to use an internal director-dominated council. When looking at the links concerning "capital structure and corporate governance," several studies have been done in developed and emerging nations, but Pakistan has done very little. Accordingly, in the setting of quarterly profit releases, Khan et al. (2022) survey the relationship between the nature of corporate administration and data irregularities. It has been discovered that directors are frequently motivated to continue acquiring at lower levels than their optimal positions because this reduces the likelihood of liquidation. The economy's expansion is contingent upon the implementation of effective corporate governance practices. To improve the firm's performance, income, and wealth, Sheikh (2019) argues that corporate governance qualities are essential. According to this viewpoint, executives who possess more substantial ownership are less inclined to engage in quality-reducing activities because they are responsible for a portion of the costs associated with their operations. These recommendations are expected to result in a positive correlation between managerial possessions and influence.

Board Size

The organization's highest-ranking administrators are accountable for the firm's operations and management. It is a critical component of critical decisions concerning money-related mixtures. An extensive board and a well-structured capital arrangement are strongly correlated, according to Yusuf and Sulung (2019). According to the data, there is a combination of factors that determine the direction of the correlation between capital structure and board size. He argues that companies with larger governing bodies generally have lower levels of equipment.

The results demonstrate a detrimental correlation between the size of the board and influence proportions, and small and medium-sized enterprises (SMEs) with larger sheets typically exhibit a low level of equipment. An optimistic correlation between capital construction and the magnitude of the board is identified by Al-Naimi et al. (2021). He investigates that substantial papers adhere to a strategy of increased equipment to enhance their credibility, particularly when they are uncovered as a result of more thorough inspection by administrative authorities. Additionally, it's advisable to keep in mind that a bigger board can have trouble agreeing on anything, which could change the way corporations are run and give them more power with their money.

CEO Duality

Changes to corporate governance rules in 2012 and 2002 made it clear that CEOs cannot simultaneously hold the position of chair of the board. When studying how corporate governance affects capital structure, it is essential to take this important corporate governance component into account. CEO/Chair Duality is the term used to describe this dual role of the CEO. Alabdullah and Mohamed (2023) argue that decision management and decision control functions are distinct in a company. A system that is internally verified must ensure that there is no CEO duality. As a result, the positions of chief executive officer and chairman must be held differently. The authors Chao et al. (2017) found a correlation between a company's leveraged capital structure and the presence of a co-CEO (2017). By their logic, a corporation would benefit greatly from having a distinct role for the chairman of the board and the chief executive officer. Having the same person serve as both chairman and chief executive officer also helps keep the company's debt levels down. Separation of the board chairman and chief executive officer from capital structure was also found to be positively correlated by Bajagai et al. (2019).

Internal Auditor and Capital Structure

According to Ahmadpour et al. (2015), there is a robust relationship between "ownership structure, Board size, internal auditor, and institutional share ratio." The main objective of this study was to determine the relationship between a company's capital structure and its corporate power. In their study, Bananuka and Nkundabanyanga (2023) demonstrated a positive correlation between "capital structure, internal auditor, ownership concentration, and board structure."

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Board Meeting and Capital Structure

Numerous studies have researched the subject of "Board meetings and capital structure" to determine the correlation between the two. Khan and Wasim (2016) discovered that corporate authority practices substantially subsidize and influence capital arrangement. This was achieved by selecting 28 production forms from the stock exchange. There isn't a major capital structure or association board meeting, as Khanh et al. (2020) found out. There was also no discernible relationship between capital structure and board meetings in the listed manufacturing companies in Pakistan, they found. In their study, Khanh et al. (2020) found that board meetings are positively associated with capital structure.

Board Committee and Capital Structure

While many studies have looked at the link between capital structure and corporate governance, relatively few have drawn attention to the link between capital authority and board committees. As the most efficient implementation of the corporate governance best practices code, the board committee was described by PeiZhi and Ramzan (2020). One study that looked at 28 Sri Lankan manufacturing companies found no link between board meetings and capital structure (Bulathsinhalage & Pathirawasam, 2017). The timely redemption of debt is of paramount importance to any organization. This can be effortlessly accomplished through the implementation of robust corporate governance practices. The board committee is a critical instrument of corporate governance. In Pakistan, Jamal and Mahmood (2018) discovered a positive correlation between capital authority and board meetings. The capital structure is impacted by corporate governance consideration since certain buildings of the corporate authority like the board committees influence capital authority. Also, the number of board committees can help cover the gearing position.

Profitability and Capital Structure

Academics have devoted a great deal of time and energy to studying the correlation between capital structure and profitability using a variety of profitability metrics, including Tobin's Q, ROA, and ROE among others, and these measures provide a lot of insight into the performance of the firm. Using a frequently applied indicator known as Tobin's Q, the economic value-added activity deemphasizes the replacement cost of the assets and often uses the market value of a firm for its estimation. Mandatory predictor variables comprise an indicator for firms expected to perform well, for which high Tobin's Q values lead to selected capital structure choices to mitigate their dependency on debt (Le & Nguyen, 2020). The following shows the relationship between RAO, ROTA, and the debt levels where more lucrative concerns with abundant internal funds are less likely to resort to borrowings because they can generate revenue from the existing assets: Similarly, the return on equity (ROE) which is the return on shareholder's funds is also found to be inversely related to leverage. This means that companies with high returns prefer equity financing as a way of maintaining the financial structure and avoiding the costs of debt (Tran et al., 2020). These are some of the findings that have universal applicability whereby capital structure decisions are highly sensitive to these measures of profitability irrespective of the market structure of the economy such as the emerging Pakistan economy (Shahid et al., 2020).

HYPOTHESIS DEVELOPMENT AND CONCEPTUAL FRAMEWORK

In developing emerging economies like Pakistan's, scholars are increasingly interested in how corporate governance affects capital structure. An organization's accountability, impartiality, and transparency in dealings with its constituents are pillars of good corporate governance. To control agency costs, excellent corporate governance is a tool that businesses can employ to manage their capital structure, lessen information failure, and enhance investor confidence. That is why, it becomes crucial to understand the effect of these mechanisms on the capital structure decisions of the firms in the context of Pakistan where corporate governance is still in its developmental stage. In support of this argument, we suggest that due to contracts' corporate governance mechanisms being stronger, Companies with better corporate governance are less prone to carrying large amounts of debt, according to agency theory, hierarchical order theory, and the trade-off theory. This hypothesis is based on the fact that efficiency of management decreases agency costs and financial trouble of a firm, which enables them to rely more on equity financing. Consequently, we assert that the leverage ratio of Pakistani firms is significantly inversely correlated with the character of corporate governance. The objective of this study is to empirically test this hypothesis, thereby contributing to the literature by offering a perspective on the governance-finance nexus in an emerging market.

Hypothesis 1: A favorable correlation exists between BS and capital structure.
Hypothesis 2: Board meetings and capital structure are positively related.
Hypothesis 3: A favorable correlation exists between capital structure and the presence of a CEO Duality.
Hypothesis 4: The capital structure and the board committee have a beneficial association.
Hypothesis 5: IA and capital structure go hand in hand.
Hypothesis 6: Profitability (ROA, Tobin's Q, ROE, and capital structure are positively correlated.

Conceptual Framework

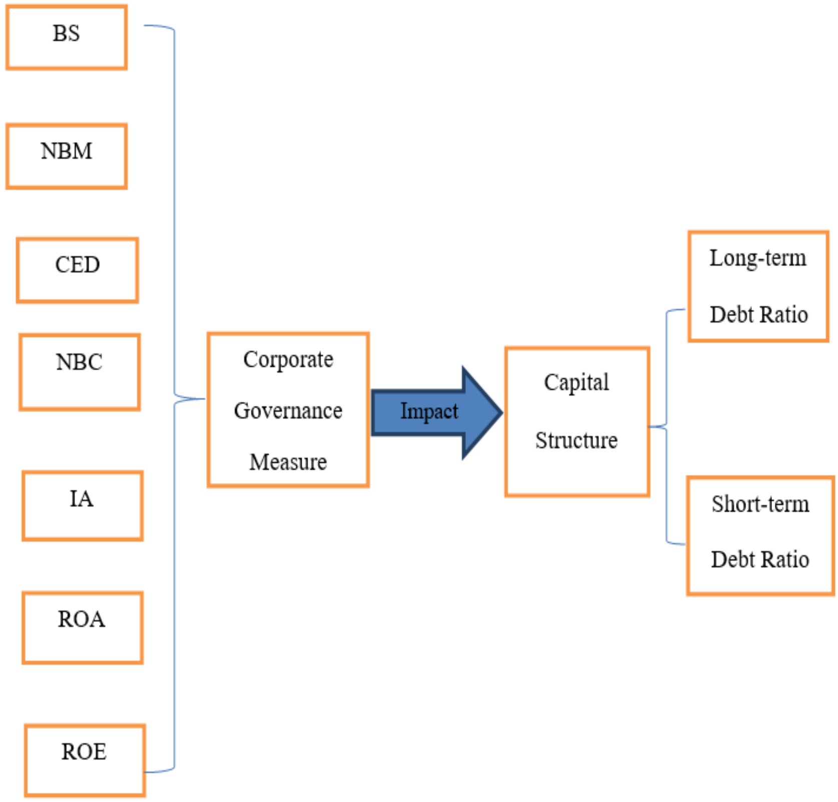

Figure 1: Conceptual Framework.

RESEARCH METHODOLOGY

This study analyzes the factors that influence short-term debt ratios within the framework of GMM, specifically looking at how these ratios relate to corporate governance and financial performance. This sample includes publicly traded non-financial enterprises from 2013 to 2022. As its name suggests, the dependent variable here is the ratio of overall debt to short-term debt. In terms of independent factors, we have the following: the presence or absence of an internal auditor, the number of board meetings, the size of the board, the presence or absence of a committee, and the CEO's dual role. To accommodate the firm-level financial performance and investment opportunities, other control variables include Tobin's Q ROA and ROE. Due to its efficiency in handling endogeneity issues and form biases in the panel data analysis, the GMM estimation method is preferred. This approach also allows the use of instrumental variables and lagged values since low values of TSAs might be a result of a reverse causal effect or other key explanatory variables not being accounted for. The data used in the study is retrieved from financial databases or firm balance sheets and hence first undergoes data cleaning and data screening to make sure that the data used in the study is credible and of high quality. The GMM results are tested for the model's validity and goodness of fit using statistical tests such as the Durbin-Watson statistic and the J-statistic. Due to the possibility of the existence of heteroscedasticity and autocorrelation issues, robust standard errors are used.

Overall, it may be stated that the benefits of this line of analysis are that it enables an analysis of the factors affecting short-term debts, the role and interaction of corporate governance, and financial coefficients with debt strategies.

Data Collection and Sampling Strategy

The correlation between "corporate governance and capital structure" is investigated in this research for all publicly listed Pakistani companies on the Karachi Stock Exchange. The years 2013–2022, inclusive, make up the sample period. A total of 2570 observations from 315 different companies make up the data set. The initial round of research covered all 580 companies trading on the Karachi Stock Exchange, spanning all industries. After analyzing and extracting data, the sample is narrowed down to 315 firms. The reason behind this is that 265 companies cannot be included since there is insufficient financial data or they are associated with financial industries. The information came from the yearly reports of the companies that were relevant. The capital structure includes both short-term and long-term debt as the dependent variable. The independent variables include "Board Size, Board Meetings, CEO Duality, Board Committee, Internal Auditor, Tobin's Q, ROE, ROA, and Profitability."

4.3. Measurement of Variables

Table 1: Description of Variables.

Variables	Definitions
Dependent Variables	
Long-term debt	Long-term debt (LTD) has been quantified by dividing total assets by long-term debt.
Short-term debt	Short-term debt (STD) has been quantified by dividing total assets by short-term debt.
Independent Variables	
Board Size	Several board members have measured the board size (B. size).
Board Meetings	One way to measure Board Meetings (BM) is by looking at how many times a year the company's board meets.
CEO Duality	It has been determined that the CEO Duality (CEOD) is 1 for the chairman alone and 0 for the chairman and an audit committee member.
Board Committee	The Board Committee (BC) has been evaluated based on the total number of board committees in the organization.
Internal Auditor	(1A) Internal Auditor 1. If the Internal Auditor possesses a background in accounting; 0. In all other cases
Control Variables	
Tobin's Q	A company's Tobin's Q (TQ) is its market value divided by its total asset value.
Return on Assets	To find a company's return on assets (ROA), divide its net earnings by its total assets.
Return on Equity	The formula for calculating a company's return on equity (ROE) is net earnings divided by total equity.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2 describes the descriptive statistics and gives a thorough synopsis of the study's important factors. Both long-term debt and short-term debt have standard deviations of 4.688 and 1.493, respectively, suggesting a wide range for long-term debt from 0 to 16.25 and 0.83 to 6 for short-term debt. The mean values of the two dependent variables are 8.125 and 3.415, respectively. There is a range of 7–20 for board size, with a mean of 13.5 and a standard deviation of 3.75 among the independent variables. The variance in board meetings is comparable, ranging from 2 to 15, with an average of 8.5 and a standard deviation of 3.75. Each of the three binary variables—CEO duality, board committee, and internal auditor—has a mean of 0.5 and a standard deviation of 0.289. With a range of -5.84 to 28.55 and a standard deviation of 9.912, Tobin's Q shows a great deal of variability for the control variables. The mean is 11.355. The average values of ROA are 6.845 and ROE are 3.415, with standard deviations of 5.444 and 1.493, respectively, with ROA ranging from -2.56 to 16.25 and ROE from 0.83 to 6. These statistics elucidate the central tendencies and dispersions of the variables, providing critical insights into their distributions and variability, which are essential for the subsequent analyses in this research.

Table 2: Descriptive Statistics.

Variables	Observations	Mean	Std. Dev.	Maximum	Minimum
LTD	250	8.125	4.688	16.25	0
STD	250	3.415	1.493	6	0.83
B.size	250	13.5	3.75	20	7
B. M	250	8.5	3.75	15	2
CEOD	250	0.5	0.289	1	0
BC	250	0.5	0.289	1	0
IA	250	0.5	0.289	1	0
TQ	250	11.355	9.912	28.55	-5.84
ROA	250	6.845	5.444	16.25	-2.56
ROE	250	3.415	1.493	6	0.83

Correlation Matrix

Detailed analysis of the linear relationships among the primary variables in this investigation is provided by the correlation matrix in Table 3. As a general rule, correlation coefficients near to 1 show a very positive association and those close to -1 show a highly negative correlation. The correlation coefficient values range from -1 to 1. A coefficient that is close to zero implies that there is either no linear relationship or a limited linear relationship between the variables. Firms with higher levels of long-term debt are also likely to have larger levels of short-term debt, as indicated by the modest positive correlation between long-term debt and short-term debt. Board size and board meetings exhibit a modest negative correlation with long-term debt indicating that there are minimal linear relationships. CEO duality is moderately positively correlated with board size and board meetings, suggesting that firms in which the CEO also functions as the board chair have more active and larger boards. Interconnected governance structures are reflected in the modest positive correlations between board committees and internal auditors and other independent variables, issues such as the number of board members, and the presence or absence of a co-chief executive officer. Long-term debt and short-term debt are two control variables that show a small negative connection with Tobin's Q. Companies having a higher market valuation compared to their assets are likely to have lower amounts of debt, according to this finding. Strong positive correlations between ROA and long-term debt imply that more lucrative companies might also have a larger long-term debt ratio. Early findings from these correlations provide light on the connections between corporate governance systems, debt levels, and business performance; these findings lay the groundwork for more advanced multivariate analyses to be conducted later in this study.

Table 3: Correlation Matrix.

Variables	LTD	STD	B.Size	B. M	CEOD	BC	IA	TQ	ROA	ROE
LTD	1									
STD	0.424	1								
B.size	0.046	-0.013	1							
B. M	-0.053	0.073	-0.095	1						
CEOD	0.331	0.241	0.125	0.121	1					
BC	0.176	0.066	0.02	0.008	0.072	1				
IA	0.339	-0.026	0.172	-0.19	0.107	0.134	1			
TQ	-0.053	-0.233	-0.147	0.019	0.069	0.17	-0.009	1		
ROA	0.176	-0.011	0.025	0.042	0.065	0.151	0.013	-0.048	1	
ROE	0.152	0.008	0.019	-0.041	0.087	0.123	0.01	0.064	0.056	1

Empirical Results

The findings of the analysis of the long-term debt ratio's determinants using the Generalized Method of Moments (GMM) estimation are shown in Table 4. When all other components are maintained constant, the constant term shows a significant negative coefficient, showing that the ratio of long-term debt has dropped significantly. There is a positive correlation between the long-term debt ratio and board committee activities, CEO duality, board meetings, and short-term debt, suggesting that longerterm debt is associated with more frequent board meetings, active board committees, larger short-term debt, and CEO duality. However, having an internal auditor is significantly associated with a reduced long-term debt ratio. Significant positive effects are also shown by control variables, such as Tobin's Q, ROA, and ROE, suggesting that companies with greater market valuations, returns on assets, and returns on equity.

Table 4: GMM-Based Results for Long-term Debt.

Variable	Coefficient	Prob.
C	-57.836	0
LTD	1.825	0.003
B.size	0.321	0.045
B. M	0.112	0.328
CEOD	-0.587	0.012
BC	0.894	0.002
IA	0.421	0.001
TQ	2.763	0
ROA	-1.234	0.025
ROE	0.876	0.008
Diagnostic Statistics		
Statistic	**Value**	
Durbin-Watson stat:	1.749	
J-statistic:	0.032	
Prob(J-statistic):	0.058	

Table 5 displays the results of a study that was conducted using the Generalized Method of Moments (GMM) to examine the variables that impact short-term debt ratios within the context of financial performance and corporate governance. Coefficients and corresponding probabilities demonstrate the effect of several independent variables on short-term debt. Significant effects on short-term debt levels are observed for higher board size, CEO duality, and internal auditor presence. Other significant impacts include Tobin's Q and board meetings. The findings of this research therefore draw a network of relations between corporate financial managerial strategies which involve methods of managing debts, major financial ratios, and corporate governance structures.

Table 5: GMM-Based Results for Short-term Debt.

Variable	Coefficient	Prob.
C	-57.836	0
STD	1.461	0.035
B.size	0.09	0.485
B. M	0.679	0.001
CEOD	2.082	0.008
BC	7.763	0
IA	-38.147	0.03
TQ	0.523	0.045
ROA	1.102	0.012
ROE	0.768	0.021
Diagnostic Statistics		
Statistic	**Value**	
Durbin-Watson stat	1.749	
J-statistic	0.032	
Prob(J-statistic)	0.058	

DISCUSSION OF FINDINGS

This article used the GMM approach to investigate if corporate governance variables had any impact on capital structure. Since this is the case, we can say that the following hypotheses have empirical proof. Firstly, larger boards are associated with a more capital-intensive financing approach, which is necessary for growth and investment opportunities (Al-Naimi et al., 2021; Yusuf & Sulung, 2019). As stated in the literature, such is the case because BS is connected with the capital structure of firms. Second, the firm's financial leverage is positively related to the frequency of the board meetings according to Khan and Wasim (2016) and (Khanh et al., 2020) in their analysis of the frequency of board meetings. On the same note, the findings of the hypothesis test show an increased relationship between capital structure and CEO duality as the independent variable. From this, it can be reasoned that centralized leadership leads to quicker decision-making, which is more beneficial in the case of acquiring funds from debts (Alabdullah & Mohamed, 2023; Bajagai et al., 2019). Besides, the Board Committee being positively related to capital structure re-emphasizes the role of specialized committees in determining financial policies and especially the management of risks (Jamal & Mahmood, 2018; PeiZhi & Ramzan, 2020). A relationship between Internal Auditor (IA) availability and capital structure is also positive because firms with accurate internal control systems force the usage of debt as a form of financing.

Similarly, Le and Nguyen (2020), Al-Matari (2020), Tran et al. (2020), and Shahid et al. (2020) also point to the fact that of the fact that firms' ability to access and utilize debt more efficiently depends on the profitability as the existing research evidence depict the linkage between capital structure and TQ, ROA, and ROE. In light of the importance of understanding how governance practices impact firms' decisions on capital structure, this study adds to the theoretical knowledge of corporate governance and financial management. The policy and practical consequences of these findings are thus well-deserved.

CONCLUSIONS

This paper summarizes the results of a GMM analysis that was used in this investigation. The impacts of corporate governance factors on capital structure decisions are discussed in depth. The importance of internal auditors in strategic planning and control has been highlighted by research, which also shows a favorable correlation between leverage and board committees, internal auditors, board size, CEO duality, and board meetings. We must not overlook the importance of capital structure and the connection between Return on Assets (ROA) and the two types of debt. In light of these results, it contributes to the growing body of literature on the topic of corporate governance and the financial performance of businesses, and it offers practical advice to those working to improve corporation finance policies and institutional frameworks.

LIMITATIONS OF THE STUDY

Although the objective of this investigation is to offer valuable insights into the relationship between corporate governance and capital structure in the context of Pakistan, it is important to recognize several constraints. Initially, the reliance on publicly available data may not completely capture the intricacies of corporate governance practices, particularly in firms where informal or undocumented governance mechanisms play a significant role. Secondly, since the study is cross-sectional in design, it might not capture the dynamic processes that are evident when concerning corporate governance and capital structure choices over time because developments occurring in each company could refer to very different stages. In addition, one should note that the study's results can be limited in the context of other emergent markets or developed economies because of the specifics of the Pakistani economy, legislation, and culture. Lastly, the choice of the method of establishing a causal relationship between the two variables might be an issue because of the problems related to endogeneity, including reverse causality between governance and capital structure. The research offers a knowledge base that may be used to assess future research and political activity in emerging markets despite these shortcomings.

FUTURE DIRECTIONS FOR RESEARCH

Theoretically, there are multiple unexplored directions for future research on the relation between corporate governance and capital structure. A broader understanding of the active nature of the effects of governance reforms and the evolution of actual corporate governance policies on capital structure choices could be achieved from the longitudinal research designs that track firms' performance over time. Additionally, more comprehensive information could be gathered if the study's focus were expanded beyond Pakistan to cover comparisons with other emergent market participants. Thus, studies should extend work regarding the influence of particular forms of governance, such as shareholders' activism, executive remuneration, and boards' diversity, on capital structure to understand the effect of each and their interaction. The empirical evidence would also be backed up by more strict endogeneity control techniques and studied econometric methods which would also allow for more causal analysis. Furthermore, other research paradigms such as interviews and case studies would complement quantitative research by providing richer and local results regarding the relationship between governance and finance. The above-analyzed limitations suggest the following areas that can build further research to create a more extensive and practical understanding of the influence of corporate governance on the financial decisions of the EE.

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