

Corporate governance and capital structure of Malaysian family-owned companies

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Keywords

Capital structure, corporate governance, family-owned companies, debt financing, and leverage

Abstract

The purpose of paper is to examine the corporate governance attributes that will influence the capital structure of the Malaysian family-owned company. More specifically, this study divides into two objectives which are to examine the relationship between corporate governance and capital structure of the Malaysian family-owned company and to examine whether corporate governance has a significant impact on the capital structure of the Malaysian family-owned company. This study will establish whether capital structure is determined by the various corporate governance attributes, namely board of director size, board of director composition, board of director financial expertise, Chief Executive Officer (CEO) duality role, and Chief Executive Officer (CEO) tenure. This paper employed the family-owned company listed in main market of Bursa Malaysia and yet, the selection of listed family-owned companies based on the prior literature. The sample of 195 companies has met the characteristic of family-owned companies and the study covers three years observations which are 2009, 2010, and 2011 collected from annual report as data for non financial attributes. The general findings show that there is a significant negative relationship between board composition and debt ratio, long-term debt ratio and short-term debt ratio which indicates that high proportion of board composition is associated with lower debt ratio and long-term debt ratio which is there is low dependent on debt financing and CEO tenure and capital structure also has significant relationship, but only with long-term debt ratio. This suggests the longer tenure will lower the dependent on the debt financing.

1.0 Introduction

Capital structure is a combination of both equity financing and debt financing. Equity financing refers to share capital and reserve while debt financing refers to the borrowings of the firm. The preference to the type of financing is different between firms, some firms may prefer equity financing, and the others may prefer debt financing. Many theories on capital structure have been developed by the prior scholar; one of the theories is pecking order theory, where a firm prefers internal financing to finance the activities (Frank & Goyal, 2003). Internal financing here refers to the reserve of the firm, accumulated profit generated from activities.

Due to different preference of financing between firms, this study tries to examine whether corporate governance will have an impact on the financing decision of the firm. Corporate governance is defined as the system in which the firm is being directed and controlled (Cadbury, 1992). Agency theory is developed to explain the relationship between the shareholders and managers. The objective of the agent should be in line with the objective of principals. Hence, in choosing the financing decision of the firm, the agent or management should choose the capital structure that will maximize the value of the shareholder's wealth (Jensen & Meckling, 1976). However, unaligned objective between agents and principals create agency problem.

Corporate governance is a guideline on how to manage and control the firm. Weak corporate governance will lead to poor financial decision of the firm and hence lead to poor financial performance (Abor, 2007). Thus, it is important to study the linkage between corporate governance

and the financial decision of the firm in order to maintain corporate sustainability of the family-owned company in Malaysia. The corporate governance attributes that mostly used by prior study are board size (Abor, 2007; Bokpin & Arko, 2009; Ahmadpour, Samimi, & Golmohammadi, 2012; Gill, Biger, Mand, & Shah, 2012; Sheikh & Wang, 2012), board composition (Abor, 2007; Heng, Azrbaijan I, & San, 2012; Sheikh & Wang, 2012) and CEO duality role (Abor, 2007; Bokpin & Arko, 2009; Vakilifard, Gerayli, Yanesari, & Ma'atoofi, 2012; Gill et al., 2012), managerial shareholdings (Bokpin & Arko, 2009; Sheikh & Wang, 2012), ownership concentration Ahmadpour et al., 2012; Sheikh & Wang, 2012), institutional investor (Hussainey & Aljifri, 2012), dividend policy (Hussainey & Aljifri, 2012), internal auditor (Ahmadpour et al., 2012) and CEO tenure (Abor, 2007) as corporate governance attributes in their study.

All of the corporate governance attributes mentioned have been used by prior study to test their impact on the capital structure of the company, all of the corporate governance attributes are significant related to the capital structure of the companies. Thus, all of above corporate governance attributes are important in the determination of capital structure of the company. Different companies will adopt different financing strategy to finance their project and investment (Vakilifard et al., 2011). Theory of capital structure suggests that a company's capital structure is influenced by several factors; one of it is the corporate governance itself (Vakilifard et al., 2011).

However, until to date, especially in Malaysia, there has been little concentration given on the relationship between corporate governance attributes and capital structure of the companies. Thus, this study will look in depth on the association between corporate governance attributes and capital structure and the study focus on the family-owned companies.

Many studies on the association between corporate governance and capital structure have been done. Most of them use companies listed on the stock exchange as their samples of study. In Malaysia, Heng et al., (2012) examine the relationship between the board of director and capital structure based on the non-financial leading companies listed on Kuala Lumpur Stock Exchange, or known as Bursa Malaysia.

This study also uses sample companies listed in the main market of Bursa Malaysia, but the companies must fulfill the criteria of family-owned company. This is because; no prior studies examine the relationship between corporate governance and capital structure of Malaysian family-owned company. Thus, this study attempts to get the evidence on the relationship between corporate governance and capital structure in the family-owned companies in Malaysia.

The findings of this study will provide additional contribution to the existing body of knowledge relate to the evidence on the capital structure in Malaysia. This also may help the family-owned companies in Malaysia in determining the corporate governance setting in the company that will effectively monitoring the financing decision of the management, particularly in the aspect of the board of director.

2.0 Literature Review

The review of the literature is relating to corporate governance which forms the basis of the study. Corporate governance came into existence since people started doing business. The Cadbury Committee has defined the corporate governance as the system by which companies are being directed and controlled (Cadbury, 1992). Whilst in Malaysia, the High Level Finance Committee Report in 1999 has defined the corporate governance as the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long term shareholder value, whilst taking into account the interest of other stakeholders (Corporate Governance, 2011). From this definition, corporate governance sets out guidelines to manage business, and this is for board of directors and management of company in discharging their fiduciary duty and responsibility in maximizing the shareholder value, and taking into account the interest of the other stakeholders.

Thus, agency theory comes into picture in this process, agency theory is defined as the relationship between two parties, the agent and the principal, the agent are delegated with some authority to make decision on behalf of principals (Jensen & Meckling, 1976). The shareholders delegate decision making to the management on behalf of the shareholders, the decision should maximize the shareholder value. This relationship exists because of separation of ownership and control in the company, the separation of the residual claimants and the decision maker in the company (Fama & Jensen, 1983). However, if both principals and agents have different objectives, the agents will not always act in the best interest of the principals (Jensen & Meckling, 1976). Hence, information adversely will affect the ability of the principals to effectively monitor the agent's behavior. Self-seeking managers will maximize their own interest at the expense of the shareholder, and this is called a moral hazard. Another agency problem is adverse selection that occurs when the principals do not have access to the information at the time agents make the decision on behalf of the principals (Adams, 1994).

To solve it, various studies have been done; one of it is by enhancing the function of corporate governance in monitoring the managements. The board should effectively monitor the CEO in order to improve their performance and avoid the conflicts of interest as well (Bonazzi & Islam, 2007). Also, improving the board independence helps to resolve the effective monitoring function of the board towards the management of company. Audit committees can also one that can mitigate the agency problem by monitoring the managements of the firms. Jensen (1986) has discussed the role of debt mitigating the self-motivating manager. Free cash flow can lead to the manager to invest in low-return investment or the manager will tend to waste the money, creation of the debt without retention of the proceeds of the issues will bond the managers with the promise to pay interest to the debt holders, this is contra with the promise dividend to the shareholder, because dividend can be reduced in future whereas interest are fixed over time (Jensen, 1986).

Capital structure is defined as the optimal mixture of the firm's different sources of financing (Vakilifard et al., 2011). The famous and earliest theory developed in the capital structure is MM theory developed by Modigliani and Miller (1958). MM proposition I and II in the situation without effect of corporate tax and the transaction cost, the value of firm is not affected by leverage in proposition I, however in proposition II, the leverage will increase the risk and return to the shareholder. While the MM proposition I and II in the situation with effect of corporate tax rate, the value of the firm will increase with the effect of leverage in proposition I, and proposition II shows that the increase in equity risk and return will offset by the interest tax shield (Modigliani & Miller, 1958). The role of debt will increase the value of firm. In the perspective of agency theory by Jensen & Meckling (1976) pointed out that using debt financing will help to control the agency cost of equity in two ways. Firstly, using debt will reduce the sale to outside equity, and this will reduce the agency cost of equity. Secondly, debt will reduce the excessive perquisite consumption by the manager; this means regular debt payment will discipline managers. Myers and Majluf (1984) discussed pecking order hypothesis, which the firm will prefer internal source of fund to finance the investment, and prefer debt financing if external financing is required. The conflict of large free cash flow to the firm is explained in the free cash flow theory (Jensen, 1986). Jensen, (1986) explained that free cash flow in the firm could result that manager will use the cash for self benefit rather than the shareholders benefit. The debt will motivate the manager, thus make the manager to pay commitment to debt holders instead of making unprofitable investment. The interest payment can be substitute to dividend which is as a promise of management to pay to shareholders and depend on the management discretion, whilst interest is a compulsory payment to the debt holder.

Various measurements as proxy for the capital structure has been used by previous studies; debt ratio, which is measured as liabilities over total assets (Vakilifars et al., 2011; Oktovianti & Agustia, 2012) and long-term debt over total assets (Ahmadpour et al., 2012). Besides that, capital structure also measured by debt-to-equity ratio and calculated as total debt over total equity

(Hussainey & Aljifri, 2012). Alternative calculation of debt-to-equity is total debt over total debt plus equity (Abor, 2007). This study uses three measurements or proxy for capital structure this is consistent with prior studies. The study uses debt ratio as proxy of capital structure, debt ratio is measure as proportion of total debt over the total assets of the firm. The study also takes the effect of the long-term debt of the firm into consideration, consistent with prior studies, this study uses long-term debt ratio which is measured by the proportion of the long-term debt over total assets of the firm. In addition, the study also takes the effect of the short-term debt of the firm into consideration; therefore the study also includes the short-term debt ratio as a proxy for capital structure. Consistent with prior studies, the short-term debt ratio is by proportion of the short-term debt over the firm total assets.

Many studies show the impact of the corporate governance towards the choice if the capital structure of the firms. Prior studies on the relationship between corporate governance and capital structure found the board size (Abor, 2007; Bokpin & Arko, 2009; Ahmadpour et al., 2012; Gill et al., 2012; Sheikh & Wang, 2012), Board composition (Abor, 2007; Heng et al., 2011; Sheikh & Wang, 2012) and CEO duality (Abor, 2007; Vakilifard et al., 2011; Gill et al., 2012) have statistically significant positive relationship with the capital structure of the firm, this suggest that larger board size, have more independent non-executive director and CEO who is also a chairman will have higher capital structure. However, Vakilifard et al., (2011) and Heng et al., (2012) found a negative relationship between board size and capital structure of the firm, this suggests that firm with larger board size will have lower capital structure.

There no generally accepted definition that defines the family-owned company or family controlled firm. Prior studies have provided some characteristics in identifying the family-owned company which are presence of the family members on the board of director, and founder (Anderson, Mansi & Reeb, 2003; Tsao, Chen, Lin, & Hyde, 2009; Hashim, 2011). However, this study adopts the characteristics used by Amran and Che Ahmad (2011) to determine the characteristics of the family-owned company with additional one characteristics from study by Bartholomeusz and Tanewski (2006). In (Amran and Che Ahmad, 2011), the characteristics are the founder is the CEO or successor of the CEO who is related by blood and marriage, with at least two family members in management and family directors have ownership (direct and indirect shareholding) of a minimum of 20% in the company.

From an agency theory point of view, ownership structure is one of the effective corporate governance mechanisms to mitigate the agency problem with suggest that concentrated ownership is effective monitoring function (Jensen & Meckling, 1976). In addition, the owner of family members still holds a significant amount of shares, important position and discharging their monitoring function. However, on the other hand, concentrated ownership and combining the ownership and control in family owned company also might increase the agency cost (Bartholomeusz an Tanewski, 2006). This is because, concentrated ownership and combining the ownership and control to one person or group will give chances to the expropriate the wealth of other shareholders through related party transaction, excessive compensation and special dividend (Anderson & Reeb, 2003).

Basically, the theoretical framework of this study underlying the effect of corporate governance attributes and capital structure of the family owned companies. The corporate governance attributes in the study measured by board size, board composition, and board financial expertise, other than that, the corporate governance attributes also measured by Chief Executive Officer (CEO) duality role, and Chief Executive Officer (CEO) tenure.

3.0 Research Design and Methodology

3.1 Data Collection

The sample for this study restricted to the companies listed on the Bursa Malaysia Stock Exchange. The sample selected comprise of Malaysian family-owned companies listed on Bursa Malaysia main market which the selection of the family owned company follows the definition used

prior literature. A total of 195 companies have met the characteristics of family owned company, year 2009 is used as a base year in determining the family-owned company. The study used three years observation of annual reports over the period of 2009, 2010 and 2011. The total companies listed in Bursa Malaysia main market exclude the banking, finance and insurance sector since this sectors need to comply with some specific regulation. Furthermore, also excluded is the company's annual reports that are not available for these consecutive three years.

3.2 Hypothesis Development

The study aims to examine the relationship between corporate governance attributes and how the attributes of the corporate governance will affect capital structure of the family-owned companies. The attributes of corporate governance such as board of director size, board of director composition, board of directors' size, Chief Executive Officer (CEO) duality role, and Chief Executive Officer (CEO) tenure are believed to affect the capital structure of the family-owned companies. Five hypotheses were developed to be tested and to support the research objectives are:

Abor (2007) argues that a larger board is able to monitor the management in order to adopt high debt policy in order to increase the value of company. Thus, it is believed that large board is able to monitor the management in order to adopt high debt policy in order to increase the value of the company. This is consistent with study by Bokpin and Arko (2009), Mohd Saad (2010) and Gill et al., (2012). However, Vaklifard et al. (2011) found opposite direction of the board size and capital structure of company, which is negative relationship between board size and the leverage of company. This suggests that companies with large board will prefer lower debt as they perceived debt is the risk associated with the company. Hussainey and Aljifri (2012) found there is no significant relationship between board size and debt-to-equity ratio.

Hypothesis 1:

There is a significant relationship between board size and capital structure of family-owned company.

Abor (2007) found that positive relationship between boards' composition and debt ratio of the companies. This result suggests that the board of director with a high proportion of the independent directors will tend to pursue with high debt policy which is high debt policy is believed to increase the value of company due to debt tax shield. Furthermore, debt is also an effective tool to discipline the manager to pay the commitment of debt. On the other hand, Bokpin and Arko (2009) found there is no significant relationship between board independence and capital structure of the firm. This also supported by Vikilifard et al. (2011). Thus, independent directors do not play an effective role in monitoring the capital structure of company.

Hypothesis 2:

There is a significant relationship between board composition and capital structure of family-owned company.

Financial expertise may be one of the important things when it comes to decision making regarding accounting matters. The Malaysian Code on Corporate Governance recommends that members of the audit committee should be financially literate with minimum one (1) of the member hold membership with an accounting association of bodies (MCCG, 2007). Kim and Lim (2010) found those independent outside director who are accountant have negative relationship with the firm valuation. This means that value of firm and proportions of independent outside director have inverse relationship. However, Guner, Malmendier, and Tate (2007) reveal that financial expert significantly affect the finance and investment policies of the company that they serve as directors. This is explaining that the financial expertise of the directors does influence financing policies of the company. A director with financial expertise will prefer lower leverage; this is due to their understanding of leverage as a potential risk for the firm.

Hypothesis 3:

There is a significant relationship between board financial expertise and capital structure of family-owned company.

Abor (2007) found a positive relationship between capital structure of the firm and CEO duality role. This finding suggests that CEO who is also the chairman of the board will tend to adopt high debt policy. The result found by Vakilifard et al. (2011) and Gill et al. (2012) also consistent with Abor (2007). On the other side, there is a negative significant relationship between dual leadership and capital structure of the firm. The result suggests that the company with CEO is also the chairman of the company will have lower debt. This is due to the risk associated with the debt and hence, showing the effective decision of the CEO who is also the chairman of the board do not tolerate with the risk. But, Bokpin and Arko (2009) found insignificant relationship between CEO duality role and financial leverage.

Hypothesis 4:

There is a significant relationship between CEO duality role and capital structure of family-owned company.

There is negative relationship between the CEO tenure and capital structure, however the relationship is significant (Abor, 2007). The result suggests that an entrenched CEO will adopt lower debt policy in order to reduce the performance pressure related to the high debt. Company with high debt has to perform well in order to meet the commitment of debt. CEO plays an important role in deciding the capital structure because CEO has well understanding of the position of the company.

Hypothesis 5:

There is a significant relationship between CEO tenure and capital structure of the family-owned company.

3.3 Measurement of variable**3.3.1 Measurement of dependent variable**

This study will employ three ratios as a proxy for the capital structure. First proxy to measure capital structure is debt ratio which is consistent with prior research. The debt ratio is calculated as total debt over total assets of the company (Boateng, 2004; Abu-Tapanjeh, 2006; Amjed, 2007; Bokpin & Arko, 2009; Azhagaiah & Gavoury, 2011; Haque et al., 2011; Stigbauer, 2011; Heng et al., 2012; Kuo et. Al, 2012; Sheikh & Wang, 2012). The study also takes consideration on the long-term debt of the company, thus second proxy for capital structure in this study is long-term debt ratio and it is calculated as long-term debt over total assets of the company (Amjed, 2007; Kuo et. Al, 2012; Sheikh & Wang, 2012). The study also takes into consideration the short-term debt of the company. Thus, the third proxy of capital structure is short-term debt ratio. It is calculated as short-term debt of the company over its total assets (Amjed, 2007; Kuo et. Al, 2012).

3.3.2 Measurement of independent variable**Board size (BSIZE)**

The first proxy of the corporate governance is board of directors' size. Measurement of size of the board is measured by total number of director serves on the board of the company. This measurement is consistent with Abor (2007), Bokpin and Arko (2009). This study aims to examine the influence of board size towards capital structure of the family owned company.

Board Composition (COMP)

Abor (2007), Heng et al. (2012) and Sheikh and Wang (2012), board of director composition is measured based on the proportion of independent non-executive director divided by total number of directors on the board.

Board Financial Expertise (EXPERT)

Board financial expertise is measured by proportion of director with accounting and financial expertise over total number of directors. This is consistent with the measurement used by Kim and Lim (2010) and Amran and Che Ahmad (2011).

CEO duality (DUALITY)

CEO duality is measured using dummy variable where CEO who also serve as chairman is coded "1" and "0" otherwise. This is consistent with Vaklifard et al. (2011) and Gill et al (2012).

CEO tenure (TEN)

The last proxy of corporate governance in the study is the Chief Executive Director (CEO) tenure. It is measured by number of years the CEO in position (Abor, 2007).

3.3.3 Measurement of control variable

Many prior studies used firm size and return on assets (ROA) as control variables. Both firm characteristics are controlled in this study as these two variables may influence the capital structure of the firm (Abor, 2007; Haque et al., 2011; Vaklifard et al., 2011; Kuo et al., 2012; Sheikh & Wang, 2012). There is a significant positive relationship between firm size and capital structure of the firm and also, there is significant negative relationship between return on assets (ROA) and capital structure. This could be explained by the fact that a large company are highly leverage as compared to the small company due to the company gain confidence from the lender to provide fund to the firm. Yet, return on assets (ROA) as a measurement of profitability of the company shows a negative relationship with capital structure because profitable company have large internal fund to finance their investment and project, hence debt financing is not required.

3.4 Regression Model

The model is developed to test relationship between capital structure and corporate governance. The estimate multiple linear regression models are as follows:

$$CS_i = \beta_0 + \beta_1 BSIZE_i + \beta_2 COMP_i + \beta_3 EXPRT_i + \beta_4 DUAL_i + \beta_5 TEN_i + \beta_6 FSIZE_i + \beta_7 ROA_i + \varepsilon_i$$

Where,

CS= capital structure

Proxies:

DR = debt ratio

LTDR = Long-term debt ratio

STDR = Short-term debt ratio

BSIZE = Board size

COMP = Board composition

EXPRT= Board financial expertise

DUAL = CEO duality role

TEN = CEO tenure

FSIZE = Firm size

4.0 Findings

Table 1 shows the descriptive statistic of the variables for overall minimum and maximum value for dependent (capital structure), independent (corporate governance) and control variable. These 585 observations are due to pooled of data for 195 family owned companies covering three years study, from 2009 till 2011. First proxy for capital structure is debt ratio (DR). The mean value for debt ratio is 21.552%, while the minimum and maximum values for debt ratio are 0% and 139.173% respectively. It shows that some firms do not take up debt ratio during observation period. Second and third proxies for capital structure are long-term debt ratio (LTDR) and short term debt ratio (STDR). Both show that minimum value for overall observation is zero. It means that the companies are not used both during the observation. The maximum values for both are 58.850% and 138.841% respectively. On the overall corporate governance attributes shows that board size (BSIZE) is the minimum number of board sit is 4 people, maximum people is 17 and the mean of directors

seat in the board is 7.69 people. Second proxy is board composition which shows that the minimum of independent directors seat in the board is 20% and maximum is 40%. Thus, the average independent director seat is 41.684%. Next is the minimum values is for board financial expertise (EXPRT) is zero which is some firms do not have directors with financial expertise in the board and the maximum is 80% which shows the highest percentage of board of director with financial expertise is 80%. The CEO tenure is 1 year as the minimum and maximum value for CEO tenure is 39 years. The average number of years that CEO holds the position for overall observation is 11.3 years.

Table 1: Descriptive Statistic

	N	Minimum	Maximum	Mean	Standard Deviation
DR	585	0	139.173	21.552	17.264
LTDR	585	0	58.850	7.603	9.170
STDR	585	0	138.841	13.949	14.165
BSIZE	585	4	17	7.690	1.912
COMP	585	20	80	41.684	10.241
EXPRT	585	0	80	26.837	13.251
TEN	585	1	39	11.300	8.793
FSIZE (RM'000)	585	24,596	48,266185	992,389.130	4215362.488
ROA	585	-63.043	38.635	6.835	8.358

The overall correlation among the variables were relatively low or medium and below 0.5. As observed in table 4.3, three proxy of capital structure shows significant related each other, strong positive relation between debt ratio and long-term debt ratio and short-term debt ratio and there is linear relation between them. Table 2 shows a positive linear between debt ratio (DR) and board size (BSIZE) at 1% significant level. Also, there is a significant positive linear correlation between board size (BSIZE) and long-term debt ratio (LTDR) at 1% significant level. Furthermore, Table 2 also shows a significant negative linear relationship between debt ratio (DR) and board financial expertise (EXPRT) and also significant negative relationship between long-term debt (LTDR) and financial expertise (EXPRT) at 1% significant level. Further test in control variables, it shows that all proxy of capital structure is significant in relation to the firm size (FSIZE) and return on assets (ROA) as proxy of control variables. Also, debt ratio (DR) and long-term debt ratio (LTDR) have significant positive correlation with firm size (FSIZE) at 1% and short-term debt ratio (STDR) at 5% which is larger companies tends to use both debt ratio and long-term debt ratio. Furthermore, there is significant negative relationship between BSIZE with COMP, EXPRT and DUAL.

Correlation Analysis

Table 2: Pearson correlation matrix for explanatory variables

	DR	LTDR	STDR	BSIZE	COMP	EXPRT	DUAL	TEN	FSIZE	ROA
DR	1									
LTDR	.653**	1								
STDR	.818**	.098*	1							
BSIZE	.128**	.159**	0.046	1						
COMP	-0.053	-0.058	-0.025	-.354**	1					
EXPRT	-	-	-0.048	-.226**	0.064	1				
DUAL	1.27**	.156**					1			
TEN	-0.049	-0.072	-0.01	-.184**	0.075	.177**	.116**	1		
FSIZE	0.011	-0.034	0.04	0.077	-0.016	0.001			1	
ROA										1

FSIZE	.328**	.445**	0.093*	.356**	-0.009	-.136**	0	.098*	1
ROA	-	-	-	.117**	-1.111**	.101*	0.034	-0.06	.094*
	.298**	.138**	2.87**						

**Correlation is significant at 0.05 levels (2 – tailed)

*Correlation is significant at 0.01 levels (2- tailed)

The study aims to explore the relationship between the corporate governance and the capital structure of the family-owned company. The Ordinary Least Square (OLS) regression is conducted as the correlation coefficient alone insufficient to test the existence of the relationship. Before testing, the normality test should be done and all of the variables have skewness less than 2 and this indicates that all variables are normally distributed. Multivariate analysis is performed to examine the interaction between independent variables and dependent variables. Multiple regressions are used to analyze the relationship between several independent variables and dependent variable. Table 3 shows the relationship between firm capital structures and several corporate governance characteristic after controlling the firm size and profitability. Even though the R² is low, the model is still fit for analysis because significant relation may still exist between the dependent variables and independent variables (Colton & Bower, 2002). Therefore, from overall findings, it only implies that 22.9%, 25.1%, and 10% of variation in DR, LTDR, STDR respectively is explained by variation in the independent variables.

Table 3 shows that the coefficient for board composition is significantly negative related at 5% level with debt ratio. This indicates that proportion of the independent director negatively related to the debt ratio of the family owned company which is the family-owned company with large proportion of the independent director would prefer low debt ratio. Independent director prefer internal financing to finance the project of family owned company and it is consistent with Wen, Rwegasira, and Bilderbeek (2002). But, this result inconsistent with Abor (2007), Heng et al. (2012), and Sheikh and Wang (2012). Table 3 also indicates that the composition significantly negative related at 5% level with long-term debt ratio. Basically, the nature of family-owned company is different from other firm, and debt represents risk to the firm.

Table 3 also further indicates the coefficient for CEO tenure is significantly negative (at 5% level) with long-term debt ratio. It does give impact to the capital structure since CEO and management team of the family-owned company is responsible to the day-to-day operation of the firm. This result is consistent with study by Berger, Ofek, and Yermack (1997), Wen et al. (2002) and Abor (2007). This result suggests that the longer the CEO serves on the family-owned company, the CEO will avoid debt financing, especially the long-term debt financing. This is because CEO does not want to commit with long-term financing commitment

Table 3: Regression Analysis

VARIABLES	DR		LTDR		STDR	
	coefficient	p-value	coefficient	p-value	coefficient	p-value
(Constant)	-25.066	0.000**	-28.514	0.000**	3.448	0.543
BFSIZE	0.015	0.967	-0.156	0.450	0.171	0.566
COMP	-0.130	0.036*	-0.072	0.042*	-0.058	0.250
EXPRT	-0.041	0.375	-0.047	0.075	0.006	0.876
DUAL	-0.794	0.599	-0.994	0.248	0.200	0.872
TEN	-0.079	0.243	-0.089	0.021*	0.010	0.854
Ln_FSIZE	4.619	0.000**	3.518	0.000**	1.101	0.010**
ROA	-0.653	0.000**	-0.204	0.000**	-0.448	0.000**
R ²	0.229		0.251		0.101	
Adjusted R ²	0.219		0.242		0.090	

F-Statistic	24.263	27.484	9.202
N	580	580	580

***Correlation is significant at 0.01 levels (2 – tailed)*

**Correlation is significant at 0.05 levels (2- tailed)*

Control variables in the model are also consistent with prior literature which is firm size shows significant positive relationship at 1% level across all three dependent variables. Also, the other control variable, profitability of the family owned company which is measured by return on assets (ROA) shows significant negative coefficient at 1 % level with all three dependent variables. This is consistent with prior literature by Abor (2007), Haque et al. (2011), Kuo et al. (2012), and Sheikh and Wang (2012). This shows that profitable family-owned company prefer lower capital structure as compared to non-profitable family-owned company, this is because profitable family-owned company have higher level of internal financing. This is consistent with the pecking order theory.

Basically, this study aims to examine the relationship between the capital structure (as measured by debt ratio, long-term debt ratio and short-term debt ratio) and corporate governance attributes (as measured by board size, board composition, board financial expertise, CEO duality role, and CEO tenure) of the Malaysian family-owned companies. For the purpose of study, a sample of 195 family owned companies listed on main board of Bursa Malaysia from 2009 to 2011 is selected.

The first objective of the study is to examine the relationship between corporate governance and the capital structure of the Malaysian family-owned company. The findings from the univariate analysis indicate that high proportion of board composition is associated with lower debt ratio and long-term debt ratio which is there is low dependent on debt financing. Also, the results also reveal that CEO tenure is significantly and negatively associated with the long-term debt ratio and this suggest the longer tenure will lower the dependent on the debt financing.

For the second objective is to examine whether corporate governance has significant impact towards the capital structure of the Malaysian family-owned company. The regression results reveal that board composition has negative impact on the debt ratio and long-term debt ratio of the firm. Furthermore, CEO tenure has negative impact on the long-term debt ratio of the firm. Hence, it suggests that board composition and CEO tenure have significant impact on the capital structure of the firm.

The first hypothesis to be tested is there is significant relationship between board size and capital structure of family-owned company. The H1 is rejected since all coefficients do not show significant relationship. Hypothesis 2 states there is significant relationship between board composition and capital structure of family-owned company. The result shows that significant negative relationship between board composition and debt ratio, long-term debt ratio and short-term debt ratio. Hypothesis 3 states there is a significant relationship between board financial expertise and capital structure of family-owned company. But, the result shows there is no significant relationship even there is a negative coefficient with debt ratio and long-term debt ratio. Thus, H3 is rejected. Next, hypothesis 4 states there is significant relationship between CEO duality role and capital structure of family-owned company. But, the result shows there is no significant relationship. Thus, H4 is rejected. Hypothesis 5 states there is significant relationship between CEO tenure and capital structure of the family-owned company and the result shows significant negative relationship with long-term debt ratio. But, there is insignificant relationship between CEO tenure with debt ratio and short-term debt ratio.

5.0 Conclusion

Capital structure is the combination of the sourcing financing between equity financing and debt financing. Different companies adopt a different capital structure, dependent on several situations and condition of the company. Corporate governance is the way company is being directed and managed. Thus, the way companies are managed will impact the capital structure.

The hypothesis shows there is significant negative relationship between board composition and debt ratio, long-term debt ratio and short-term debt ratio which indicates that high proportion of board composition is associated with lower debt ratio and long-term debt ratio which is low dependent on debt financing and CEO tenure and capital structure also has significant relationship but only with long-term debt ratio. This suggests the longer tenure will lower the dependent on the debt financing.

There are some limitations and if it can be overcome, it may give different findings. The family-owned companies have different characteristics from other companies, thus expanding the samples to other companies also may provide a more generalized finding. Second, since the study only took three consecutive years, thus the number of observations is expanded, it will provide robust findings. The analysis of the study also reveals that the R^2 of the study is low. The low R^2 may be due to error in the measurement of the variables, wide variation in the variable data or error in sampling techniques used by the researcher.

For future research, other variables may be added or other sampling techniques may be used to explain the relationship between corporate governance and capital structure of the company. More variables of analysis may increase the R^2 of the result. Furthermore, future research can consider whether different industries could affect the relationship between corporate governance and capital structure. Also, the future research can extend to other types of samples like small-medium sized enterprises.

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