The Impact of Corporate Governance on Capital Structure: The Empirical Study of the Agricultural Companies in the ASEAN Stock Exchange

Jonathan Susanto[1], Deddy Marciano[2] and Didik Siswantoyo[3]
[1]*Alumny of University of Surabaya, Jl. Raya Kalirungkut, Surabaya, Indonesia*
[2,3]*Department of Management, University of Surabaya, Surabaya, Indonesia*
marciano@staff.ubaya.ac.id,

Keywords: Corporate Governance, Capital Structure, Agriculture, Leverage, Company performance

Abstract: The principal goal of companies is to maximize the wealth of shareholders, however, the authorized managers sometimes misuse their supremacy to enrich themselves and therefore they fail to comply with the interest of shareholders. Having seen this, good governance is necessary in order to minimalize the conflicts of interest. Corporate governance (CG) is believed that it can determine the selected funding structure and is reflected in the company's capital structure. The design of CG towards the capital structure links to the leverage which can be exercised as a bonding mechanism to control the directors to act based on the company's main goal. We investigate the effect of CG (audit committee size, board size, CEO tenure, director independence, profitability, size and growth) on the firm's capital structure (leverage). We use data on agricultural firms that are listed in the association of east Asian nation (ASEAN) stock exchange. Our findings demonstrate each country has different level of good governance. For Indonesia companies, we found that board size and tenure of CEO are the factors of good governance that have positive impact on capital structure. The factors that significantly affect good governance on capital structure in Thailand are audit committee and CEO tenure. For Singaporean companies, we discovered that CEO tenure is the only element that has positive impact on the capital structure. Companies in Malaysia documented few drivers of good governance such as audit committee, board size, CEO tenure and independent directors that have effect on capital structure.