

Documents

Rahman Bayuny, A.F.^{a, b}, Haron, R.^c

Board structure, ownership structure, and capital structure: Empirical evidence on Shariah and non-Shariah compliant firms in Indonesia

(2023) *Banks and Bank Systems*, 18 (4), pp. 241-254.

DOI: 10.21511/bbs.18(4).2023.20

^a Student of Islamic Banking and Finance Doctoral Study Program, IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia, Malaysia

^b Faculty of Economics and Business, Universitas Airlangga, Indonesia

^c IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia, Malaysia

Abstract

The main purpose of this study is to investigate the impact of board structure and ownership structure on capital structure of Shariah-compliant firms and Non-Shariah-compliant firms in Indonesia. The study used the Generalized Method of Moments to analyze the relationship by applying 2,739 data observations of non-financial companies registered on the Indonesia Stock Exchange. This study uses commissioner size, director size, female director, female commissioner, independent director, and independent commissioner as proxies for board structure, and ownership concentration and government ownership for ownership structure. The results showed that for Shariah-compliant firms, the relevant determinants are all variables of board structure and ownership structure except independent director. For Shariah non-compliant firms, the only non-relevant determinants are female director and commissioner size. Interestingly, most of the board structure variables in Shariah-compliant firms indicate a strong negative relationship with capital structure of firms (except total commissioner). This may indicate that board structure of Shariah-compliant firms strives to lower the leverage level of the firm. This may also indicate that most managers of Shariah-compliant firms are risk averse. © 2023 LLC CPC Business Perspectives. All rights reserved.

Author Keywords

board structure; capital structure; ownership structure; sustainable growth

References

- Abdullah, H, Tursoy, T.
Capital structure and firm performance: evidence of Germany under IFRS adoption
(2019) *Review of Managerial Science*, 15, pp. 379-398.
- Al Mustofa, M. U., Sukmana, R.
The effect of institutional quality on foreign direct investment
(2021) *Jurnal Ekonomi Malaysia*, 55 (3), pp. 77-87.
- Alesina, A., Giuliano, P., Nunn, N.
On the Origins of Gender Roles: Women and the Plough
(2013) *The Quarterly Journal of Economics*, 128 (2), pp. 469-530.
- Al-Nimer, M.
Effect Of Corporate Governance Rules On Voluntary Disclosure In Jordanian Corporations Listed With The Amman Stock Exchange (ASE): (An Empirical Study)
(2019) *Studies in Business and Economics*, 14 (1), pp. 154-168.
- Alnori, F., Alqahtani, F.
Capital structure and speed of adjustment in non-financial firms: Does sharia compliance matter? Evidence from Saudi Arabia
(2019) *Emerging Markets Review*, 39, pp. 50-67.
- Alves, P., Couto, E. B., Francisco, P. M.
Board of directors' composition and capital structure
(2015) *Research in International Business and Finance*, 35, pp. 1-32.

- Amin, A., ur Rehman, R., Ali, R., Mohd Said, R.
Corporate Governance and Capital Structure: Moderating Effect of Gender Diversity
(2022) *SAGE Open*, 12 (1).
- Amin, M.Y., Besim, M., Haq, Z.U.
Does state ownership really matter for capital structure in selected G-20 economies?
(2019) *Economic Research-Ekonomska Istraživanja*, 32 (1), pp. 3144-3161.
- Anderson, R. C., Reeb, D. M.
Board Composition: Balancing Family Influence in S&P 500 Firms
(2004) *Administrative Science Quarterly*, 49 (2), pp. 209-237.
Retrieved from
- Arellano, M., Bover, O.
Another look at the instrumental variable estimation of error-components models
(1995) *Journal of Econometrics*, 68 (1), pp. 29-51.
- Berger, P. G., Ofek, E., Yermack, D. L.
Managerial entrenchment and capital structure decisions
(1997) *The Journal of Finance*, 52 (4), pp. 1411-1438.
- Bhojraj, S., Sengupta, P.
Effect of Corporate Governance on Bond Ratings and Yields: The Role of Institutional Investors and Outside Directors
(2003) *The Journal of Business*, 76 (3), pp. 455-475.
- Blundell, R., Bond, S.
Initial conditions and moment restrictions in dynamic panel data models
(1998) *Journal of Econometrics*, 87 (1), pp. 115-143.
- Chau, G., Gray, S.
Ownership Structure and Corporate Voluntary Disclosure in Hong Kong and Singapore
(2002) *The International Journal of Accounting*, 37 (2), pp. 247-265.
- Chemmanur, T. J., Cheng, Y., Zhang, T.
Human capital, capital structure, and employee pay: An empirical analysis
(2013) *Journal of Financial Economics*, 110 (2), pp. 478-502.
- Chowdhury, A., Chowdhury, S.
Impact of capital structure on firm's value: Evidence from Bangladesh
(2010) *Business and Economic Horizons*, 3 (3), pp. 111-122.
Retrieved from
- Coles, J., Daniel, N. D., Naveen, L.
Boards: Does one size fit all?
(2008) *Journal of Financial Economics*, 87 (2), pp. 329-356.
- Croson, R., Gneezy, U.
Gender Differences in Preferences
(2009) *Journal of Economic Literature*, 47 (2), pp. 448-474.
- Dasilas, A., Papasyriopoulos, N.
Corporate governance, credit ratings and the capital structure of Greek SME and large listed firms
(2015) *Small Business Economics*, 45, pp. 215-244.
- Dewenter, K. L., Malatesta, P. H.
State-Owned and Privately Owned Firms: An Empirical Analysis of Profitability, Leverage, and Labor Intensity

(2001) *American Economic Review*, 91 (1), pp. 320-334.
Retrieved from

- (2022) *State of the Global Islamic Economy Report 2022: Unlocking Opportunity*, Retrieved from
- Eisdorfer, A., Giaccotto, C., White, R.
Capital structure, executive compensation, and investment efficiency
(2013) *Journal of Banking & Finance*, 37 (2), pp. 549-562.
- Elmagrhi, M. H., Ntim, C. G., Elamer, A. A., Zhang, Q.
A study of environmental policies and regulations, governance structures, and environmental performance: The role of female directors
(2019) *Business Strategy and the Environment*, 28 (1), pp. 206-220.
- Faccio, M., Marchica, M. T., Mura, R.
CEO gender, corporate risk-taking, and the efficiency of capital allocation
(2016) *Journal of Corporate Finance*, 39, pp. 193-209.
- Farooq, O.
Effect of ownership concentration on capital structure: evidence from the MENA region
(2015) *International Journal of Islamic and Middle Eastern Finance and Management*, 8 (1), pp. 99-113.
- Feinerman, J. V.
New hope for corporate governance in China?
(2007) *China Quarterly*, 191, pp. 590-612.
Retrieved from
- Frank, M. Z., Goyal, V. K.
Capital Structure Decisions: Which Factors Are Reliably Important?
(2009) *Financial Management*, 38 (1), pp. 1-37.
- Granado-Peiró, N., López-Gracia, J.
Corporate Governance and Capital Structure: A Spanish Study
(2016) *European Management Review*, 14 (1), pp. 33-45.
- Guidara, A., Khelif, H., Jarboui, A.
Voluntary and timely disclosure and the cost of debt: South African evidence
(2014) *Meditari Accountancy Research*, 22 (2), pp. 49-164.
- Haron, R.
Capital structure inconclusiveness: Evidence from Malaysia, Thailand and Singapore
(2014) *International Journal of Managerial Finance*, 10 (1), pp. 23-38.
- Haron, R.
Islamic Capital Market And Debt Financing Of Shariah-Compliant Firms In Indonesia
(2016) *Al-Shajarah: Journal of the International Institute of Islamic Thought and Civilization (ISTAC)*, 21 (3), pp. 67-86.
Retrieved from
- Haron, R., Nomran, N. M., Abdullah Othman, A. H., Md Husin, M., Sharofiddin, A.
The influence of firm, industry and concentrated ownership on dynamic capital structure decision in emerging market
(2021) *Journal of Asia Business Studies*, 15 (5), pp. 689-709.
- Huang, J., Kisgen, D. J.
Gender and corporate finance Gender and corporate finance: Are male executives

overconfident relative to female executives?

(2013) *Journal of Financial Economics*, 108 (3), pp. 822-839.

- Javaid, A., Nazir, M. S., Fatima, K.
Impact of corporate governance on Capital Structure: Mediating role of cost of capital
(2021) *Journal of Economic and Administrative Sciences*, 39 (4), pp. 760-780.
- Jensen, M. C.
Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers
(1986) *The American Economic Review*, 76 (2).
Retrieved from
- Jensen, M. C., Meckling, W. H.
Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure
(1976) *Journal of Financial Economics*, 3 (4), pp. 305-360.
- Kornai, J.
(1980) *Economics of Shortage*,
Amsterdam: North-Holland Publishing Company
- Kyriazopoulos, G.
Corporate Governance and Capital Structure in the Periods of Financial Distress: Evidence from Greece
(2017) *Investment Management and Financial Innovations*, 14 (1-1), pp. 254-262.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A.
Corporate ownership around the world
(1999) *Journal of Finance*, 54 (2), pp. 471-517.
- Li, L., Islam, S. Z.
Firm and industry specific determinants of capital structure: Evidence from the Australian market
(2019) *International Review of Economics and Finance*, 59, pp. 425-437.
- Mascia, D. V., Rossi, S. P. S.
Is there a gender effect on the cost of bank financing?
(2017) *Journal of Financial Stability*, 31, pp. 136-153.
- Nguyen, A., Nguyen, T., Hoang, P.
The impact of corporate governance quality on capital structure choices: does national governance quality matter?
(2022) *Cogent Economics & Finance*, 10 (1), p. 2073003.
- Pae, J., Choi, T. H.
Corporate Governance, Commitment to Business Ethics, and Firm Valuation: Evidence from the Korean Stock Market
(2011) *Journal of Business Ethics*, 100 (2), pp. 323-348.
Retrieved from
- Phi, N. T. M., Taghizadeh-Hesary, F., Tu, C. A., Yoshino, N., Kim, C. J.
(2019) *Performance Differential between Private and State-owned Enterprises: An Analysis of Profitability and Leverage*,
Asian Development Bank Institute (ADBI Working Paper No. 950). Retrieved from
- Ramli, N. E., Haron, R.
Debt Determinants of Shari'ah Approved Firms: Empirical Evidence from Malaysia
(2017) *Journal of Islamic Finance*, 6, pp. 188-204.
Retrieved from

- Salman, A.
Effect Of Capital Structure On Corporate Liquidity And Growth: Evidence From Tobacco Industry In Pakistan
(2019) *Academy of Strategic Management Journal*, 18 (2).
Retrieved from
- Santos, M. S., Moreira, A. C., Vieira, E. S.
Ownership concentration, contestability, family firms, and capital structure
(2014) *Journal of Management & Governance*, 18, pp. 1063-1107.
- Sheikh, N. A., Wang, Z.
Determinants of capital structure: An empirical study of firms in manufacturing industry of Pakistan
(2011) *Managerial Finance*, 37 (2), pp. 117-133.
- Shiri, M. M., Salehi, M., Radbon, A.
A Study of Impact of Ownership Structure and Disclosure Quality on Information Asymmetry in Iran
(2016) *Vikalpa*, 41 (1), pp. 51-60.
- Tarus, D. K., Ayabei, E.
Board Composition and Capital Structure: Evidence from Kenya
(2016) *Management Research Review*, 39 (9), pp. 1056-1079.
- Usman, M., Farooq, M. U., Zhang, J., Makki, M. A. M., Khan, M. K.
Female directors and the cost of debt: does gender diversity in the boardroom matter to lenders?
(2019) *Managerial Auditing Journal*, 34 (4), pp. 374-392.
- Vijayakumaran, R., Vijayakumaran, S.
Corporate governance and capital structure decisions: Evidence from Chinese listed companies
(2019) *Journal of Asian Finance, Economics and Business*, 6 (3), pp. 67-79.
- Vo, X. V.
Large Shareholders and Information Asymmetry in a Transition Economy – Evidence from Vietnam
(2019) *The Singapore Economic Review*, 68 (5), pp. 1551-1567.
- Wen, Y., Rwegasira, K., Bilderbeek, J.
Corporate governance and capital structure decisions of the Chinese listed firms
(2002) *Corporate Governance: An International Review*, 10 (2), pp. 75-83.
- Yildirim, R., Masih, M., Bacha, O. I.
Determinants of capital structure: evidence from Shari'ah compliant and non-compliant firms
(2018) *Pacific-Basin Finance Journal*, 51, pp. 98-219.
- Zamzamin, Z. Z., Haron, R., Ulum, Z. K. A .B., Othman, A. H. A.
Impact of Foreign Currency Derivatives on Firm Performance: Evidence on Shari'ah and non-Shari'ah Compliant Firms
(2022) *Jurnal Pengurusan*, 64, pp. 15-28.

Correspondence Address

Rahman Bayuny A.F.; Student of Islamic Banking and Finance Doctoral Study Program, Malaysia

Publisher: LLC CPC Business Perspectives

ISSN: 18167403

Language of Original Document: English

Abbreviated Source Title: Banks Bank Syst.

2-s2.0-85180965756

Document Type: Article

Publication Stage: Final

ELSEVIER

Copyright © 2024 Elsevier B.V. All rights reserved. Scopus® is a registered trademark of Elsevier B.V.

RELX Group™