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**THE MODERATING IMPACT OF CAPITAL STRUCTURE ON THE
RELATIONSHIP BETWEEN CORPORATE GOVERNANCE QUALITY
AND FIRM PERFORMANCE, EVIDENCE FROM AMMAN STOCK
EXCHANGE**

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Understanding determinants of firms' performance can be considered critical in accounting and finance literature. However, research has now established that corporate governance and capital structure are the most important factors determining the performance of firms. Agency theory posits that good governance has many benefits for both firms and investors, primarily in terms of improved firm performance. So, numerous researchers have focused extensively on investigating the effect of corporate governance on firm performance, especially in developed countries. However, prior studies have failed to unequivocally establish a positive relationship between corporate governance and firm performance, although theoretically, they would have expected to find one. The existing literature, unexpectedly, ignored complementary effects of other mechanisms such as capital structure. Without good corporate governance practices, a country may experience a financial crisis. For example, when many firms depend heavily on leverage (high gearing) because of weak corporate governance practices, a financial crisis may arise. To deal with the issue, this study explored the moderating impact of capital structure on the relationship between corporate governance quality and the performance of non-financial firms in Jordan over the period 2012–2016. Using Random-Fixed Effects models for the panel data, the empirical results of this study found that there is a strong positive

relationship between the composite measures of corporate governance (i.e. corporate governance index) and firm performance only when an accounting-based measure is applied, whereas the relationship is insignificant when a market-based performance measure is applied. This study found also that there is an inverse relationship between capital structure and all performance indicators (accounting/market-based measures). Lastly, the result of multivariate analysis revealed obviously that capital structure positively moderates the relationship between corporate governance index and all performance indicators (accounting/market-based measures). The results of this study are useful to all stakeholders, who should take into consideration both corporate governance and capital structure when they take their investment decisions. In addition, the study's finding offers novel insights to policymakers interested in agency conflicts of interest within firms. It also provides evidence on the use of different complementary mechanisms like capital structure for reducing agency costs.

**KESAN PENYEDERHANAAN STRUKTUR MODAL DALAM
HUBUNGAN ANTARA KUALITI URUS TADBIR KORPORAT DAN
PRESTASI FIRMA – BUKTI DARIPADA BURSA SAHAM AMMAN**

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Bagi kajian dalam bidang perakaunan dan kewangan, memahami penentu prestasi firma boleh dianggap sebagai sesuatu yang kritikal. Walau bagaimanapun, penyelidikan telah menunjukkan bahawa tadbir urus korporat dan struktur modal adalah faktor terpenting yang menentukan prestasi firma. Teori agensi berpendapat bahawa tadbir urus yang baik memberi banyak manfaat kepada firma dan pelabur, terutamanya dari segi peningkatan prestasi firma. Dengan itu, banyak penyelidik telah menumpukan perhatian secara mendalam kepada penyiasatan kesan tadbir urus korporat terhadap prestasi firma, terutama di negara maju. Walau bagaimanapun, kajian terdahulu telah gagal untuk menunjukkan hubungan positif antara tadbir urus korporat dan prestasi firma. Secara teorinya, kajian tersebut sepatutnya menemukan hubungan berkenaan. Kajian sedia ada, tanpa diduga, mengabaikan kesan pelengkap mekanisme lain seperti struktur modal. Amalan tadbir urus korporat yang baik boleh mengelakkan sesebuah negara daripada mengalami krisis kewangan. Sebagai contoh, apabila banyak firma mempunyai kebergantungan tinggi pada keumpulan (penggearingan tinggi) kerana kelemahan sistem amalan tadbir urus korporat, krisis kewangan mungkin timbul. Untuk menangani masalah ini, kajian ini meneroka kesan penyederhanaan struktur modal ke atas hubungan antara kualiti tadbir urus korporat dan prestasi firma bukan kewangan di Jordan sepanjang tempoh 2012-2016. Melalui penggunaan model Kesan Rawak-Tetap untuk data panel, keputusan empirikal kajian ini mendapati terdapat hubungan positif yang kuat antara ukuran komposit tadbir urus korporat (iaitu indeks tadbir urus korporat) dan prestasi firma hanya apabila langkah berasaskan perakaunan digunakan. Hubungan ini tidak bererti

apabila ukuran prestasi berasaskan pasaran digunakan. Kajian ini juga mendapati terdapat hubungan songsang antara struktur modal dan semua petunjuk prestasi (langkah berasaskan perakaunan/pasaran). Akhirnya, hasil analisis pelbagai pemboleh ubah jelas menunjukkan bahawa struktur modal menyederhanakan secara positif hubungan antara indeks tadbir urus korporat dan semua petunjuk prestasi (langkah berasaskan perakaunan/pasaran). Hasil kajian ini berguna untuk semua pemegang kepentingan, yang harus mempertimbangkan tadbir urus korporat dan struktur modal ketika mengambil keputusan pelaburan mereka. Penemuan kajian juga menawarkan pandangan baru kepada para penggubal dasar yang berminat dalam konflik kepentingan agensi dalam firma. Ia juga menyediakan bukti tentang penggunaan mekanisme pelengkap yang berbeza seperti struktur modal untuk mengurangkan kos agensi.