

Ownership, Management Responsibility and Corporate Performance of the Listed Firms in Kazakhstan

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Abstract—The research explores the relationship between management responsibility and corporate governance of listed companies in Kazakhstan. This research employs firm level data of selected listed non-financial firms and firm level data “operational” financial sector, consisted from banking sector, insurance companies and accumulated pension funds using multivariate regression analysis under fixed effect model approach. Ownership structure includes institutional ownership, managerial ownership and private investor’s ownership. Management responsibility of the firm is expressed by the decision of the firm on amount of leverage. Results of the cross sectional panel study for non-financial firms showed that only institutional shareholding is significantly negatively correlated with debt to equity ratio. Findings from “operational” financial sector show that leverage is significantly affected only by the CEO/Chair duality and the size of financial institutions, and insignificantly affected by ownership structure. Also, the findings show, that there is a significant negative relationship between profitability and the debt to equity ratio for non-financial firms, which is consistent with pecking order theory. Generally, the found results suggest that corporate governance and a management responsibility play important role in corporate performance of listed firms in Kazakhstan.

Keywords—Corporate governance, corporate performance, debt to equity ratio, ownership

I. INTRODUCTION

CORPORATE governance and financial leverage play a big role in maximization of shareholders’ wealth. While good corporate governance plays an important role in increasing market value of the firm [38], [17], the higher financial leverage decreases firm’s value by increasing bankruptcy risk. Rational debt/equity ratio for the firm could minimize the cost of financing and reduce the chances of bankruptcy [16]. For example, in [10], it was found that the optimal debt ratio should not exceed 60% because a higher debt ratio negatively impacts firm value. The widely known financial scandals around the world have decreased investors’ faith in capital markets and the efficacy of existing corporate governance practices in promoting transparency and accountability. From the other side, higher financial leverage increases the chances of bankruptcy, which in turn, decrease investors’ faith in capital markets. Thus, both corporate governance and financial leverage impact on the value of the firm.

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From the time of [4], then [32] and [25], different authors tried to follow their concepts to develop new theories of corporate governance. Since profitability of the firm’s is very important to maximize shareholders’ wealth and to achieve overall corporate goals and objectives, it is continuously important to analyze the possible characteristics of corporate governance that impact the value of the firm. Different governance structures can influence in different ways on market performance [14]. In presented here research it was examined the relationship between corporate governance issues and managerial responsibility of the choice a debt to equity ratio on the example of the listed on Kazakh Stock Exchange (KASE) companies during the 2006-2012 years. It was explored the firm’s monthly level data for 65 randomly selected non-financial companies and 35 financial institutions, which present so called “operational” financial sector consisted from banks, pension funds and insurance companies listed on KASE. The set of corporate governance variables includes next factors: CEO /Chair Duality, Board Size, Ownership Structure, Financial Leverage, Firm Size, and Return on Assets (ROA). Ownership structure is represented by Institutional ownership, Managerial ownership and Private Investor’s ownership. Financial Leverage of the firm is represented by debt to equity ratio, and financial performance of the firm is characterized by control variable ROA.

Corporate ownership concentration in Kazakhstan could be considered as a highest in the world, like in Russia, and in other Central Asia countries, and the transparency of ultimate control structures is typically low. The government controls more than 80 % of Kazakh traded firms through the state fund “Samruk-Kazyna”. State-controlled firms may have easier access to debt financing through commercial banks of Kazakhstan and state sub-fund “Damu”, affiliated with “Samruk-Kazyna”, while oligarch-controlled firms may have better access to capital than other privately controlled firms through funding from foreign sources since they have close relationship with government authorities. Therefore, to analyze the corporate governance influence on debt choice of the firm, it was included all types of ownership structure. This study contributes to the literature on the relationships between corporate governance, financial leverage, and firm value in at least two ways. First, it focuses on Kazakh firms while very limited research has been conducted on Central Asia’ firms recently. Second, this study validates the findings of previous authors by testing the relationships between corporate governance issues, financial leverage, and firm value on the

sample of listed firms in Kazakhstan. Thus, this study adds substance to the existing theory developed by previous authors.

The paper is structured as follows: in Section II the literature review is presented, in Section III are described the research objectives, data, metrology and the empirical model. In Section IV the empirical results are presented, and the final section concludes the paper.

II. LITERATURE REVIEW

The literature review is structured in way to show the relationship between corporate governance practices, ownership and leverage, and their impact on corporate performance in recent studies. As argued by [7], leverage can act as a substitute self-disciplining internal governance practice that mitigates agency costs by imposing fixed obligations on the use of corporate cash flow. The reduction in equity increases the alignment of the interests of managers and shareholders by increasing managerial ownership [25]. Good corporate governance is an important factor for raising value of the firm. The impact of corporate governance differs from country to country because of disparate corporate governance structures resulting from dissimilar social, economic, and regulatory conditions [38]. Showing the role of board of directors, in many recent studies it is argued that firms with larger board of directors generally have low debt to equity ratios. Larger boards exert pressure on managers to follow lower gearing ratios and enhance firm performance. On the other hand, there are positive relationship between board size and capital structure [7]. In [24] it was also stated that companies with high gearing level rather have larger boards. Another factor that contributes significantly to capital structure is the independence of directors [3]. A relationship between presence of independent directors and capital structure has been explored by few researchers, but evidence in this regard is mixed. In [24] it was showed that companies with higher gearing levels rather have relatively more non executive directors whereas companies with lower representation of non executive directors experience lower leverage. There is a positive correlation between board independence and financial leverage [10], [2]. On the other hand, there is a significant negative relationship between gearing level and representation of non executive directors on the board. The possible reason is that non executive directors monitor the managers more efficiently and effectively so managers are forced to seek lower gearing levels for achieving superior results. Similarly companies with higher representation of non executive directors are bound to follow low financial leverage with a high market value of equity [7]. The effect of the monitoring or advisory role of outside directors on the firm value is determined by the net effect of benefits minus costs [29]. In [45] it was showed significant relationship between the size of the board, and sustainable growth. A number of empirical papers have examined the determinants of board size. Board size is expected to be greater when the need for information and hence board advice is high. Such needs are expected to increase with firm scale

and complexity. There were shown the positive influence of board size, including financial leverage, firm's age [11], and industrial diversification [11], [19], [29]. Another important factor of modern corporate governance is CEO/Chair duality. Duality has direct impact on the financing decision of the company. In [22] it was showed that firms with separate chairman and CEO employ the optimal amount of debt in their capital structures. Consequently, corporate financing behavior ultimately influence on the firm value. From one side, there is a positive relationship between leverage and firm value [10]), [2]. From other side, in [36] it was found that firm profitability is significantly negatively related to debt financing, indicating that many profitable Russian firms rely less on debt financing and more on less expensive internal funds. Previously it was showed how the board characteristics relate to leverage decisions, now let see how a board characteristics influence on corporate performance. In [6] it was found that intensive board monitoring has a positive effect on firm value in Korea. The larger firms, diversified firms, and firms that rely more on debt financing, derive greater firm value from having larger boards [11]. But in [38] it was argued that small board size is generally believed to improve the value of the firm because the benefit by larger boards of increased monitoring are outweighed by the poor communication and decision making of larger groups. Also it was found that board composition and board size have a positive impact on firm performance [1]. From the other side, it is believed that larger board size negatively impacts the value of the firm [17], [12], [31]. More, in [26] it was found that the size of the board has a material impact on the quality of corporate governance and that monitoring expenses and poor communication in a larger board has been seen as a reason for the support of small board size. Independence of directors also influences on the firm value. For example, in [5] it was found the negative relation between board independence and future operating performance. Some authors found that board independence is associated with an increase in the likelihood of corporate survival [9]. But a positive and significant association between firm performance and the percentage of non-executives on the board is apparent [12]. It is, however, believed that if the CEO is the Chairman of the Board, the firm value is improved because CEO duality improved firm performance [37], [38]. However, separation of the combined role of chairman of the board and managing director has no significant relationship with firm performance [40]. In summary, the management responsibility on leverage decision is sensitive to board characteristics and control structures, and consequently, this affects on corporate performance. And finally, the last part of literature review shows the relationship between the ownership structures and leverage presented in recent empirical studies. In common law countries, firms' shareholdings are generally widely dispersed and there are strong investor protection laws to safeguard the interests of minority shareholders. Code law countries are characterized by more concentrated shareholdings, complex ownership arrangements and less effective investor protection laws. Where ownership is concentrated and there is a difference

between the cash-flow rights and voting rights of shares, owning a relatively small proportion of the share capital can be enough to control the firm. In East Asian countries, cross-shareholdings and controlling shareholders are commonplace and have a big influence on corporate governance. In [15] it was suggested that the ownership structure has an important influence on the priorities set by the board, and that these priorities will determine the optimal composition of the board of directors. In contrast to a board prioritizing monitoring, where directors with financial experience and a duality are important, a board prioritizing the provision of resources could benefit from directors with different characteristics, the presence of the CEO on the board of directors and a larger board size. The capital structure literature has largely addressed the relationship between ownership structure and debt levels for firms with diffused ownership. The results of these studies have been mixed to some extent [21]. Some studies have suggested that debt is positively related to managers' equity ownership [42], [30], [28], [34], and [13], while many other empirical studies have argued for a negative relationship between managerial ownership and debt levels [46], [33], [39], [22], [41], [18], and [43], and, finally, few empirical studies found no relationship between leverage and managerial ownership [35], [44], [27]. Evidence also shows that managerial ownership has a positive and non-linear impact on return on asset [8], [23], and [20]. In summary, these empirical results suggest that firm performance critically depends on ownership structure.

III. RESEARCH OBJECTIVE, DATA AND VARIABLES, AN ECONOMETRIC MODEL AND METHODOLOGY

The objective of this research is the evaluation of influence of corporate governance characteristics on leverage of the listed firm in Kazakhstan, and finding the relationship between corporate governance variables and leverage. It was applied an explanatory quantitative research type of data. As the scope of research work already exists on this topic mostly for developed countries, we would like to determine first if the same causal relationships between corporate governance, leverage and corporate performance are held in Kazakhstan. The first group of variables includes corporate governance variables represented by Board Size, Composition of Board and CEO/Chair Duality. The second group comprises ownership variables, representing the Managerial Shareholding and Institutional Shareholding for non-financial companies, and added to two previous types of ownership, the Private Investor's Shareholding for the firms in "operating" financial sector. The reason for choosing the only institutional and managerial ownership for non-financial firms is the exclusion of very few numbers of the firms with the private investors, which did not have the information of board characteristics. The third group consists of control variables which include Size of Firm and Profitability as ROA. All these three groups of variables are considered as independent variables. The leverage is represented by Debt to Equity Ratio, and is considered as dependent variable.

This research analyzes relationship between capital structure and corporate governance for 65 randomly selected non-financial companies and 35 financial institutions listed at Kazakh Stock Exchange. The reason that we separated non-financial companies from financial institutions is that the structure of the board of directors for financial companies is more complicated than for non-financial companies, and is more regulated by National Bank of Kazakhstan. The sample period chosen for this research was 10/2006 to 10/2011 for non-financial companies which started just after beginning of financial crisis in Kazakhstan and introducing some limitations and changes in Kazakh Law of JSC, which were created in Kazakhstan. Total monthly data include 4680 observations for 65 non-financial companies. The sample period for financial institutions covers the period 10/2009 to 10/2012 which started just after the promulgation of Code of Corporate Governance in Kazakhstan, introduced in 2003 and renewed in 2005, 2007, 2009, and with the introduction of obligatory of the independent directors in the Board of Director and some restrictions of membership in Board of Directors. Total monthly data includes 1260 observation for 35 financial institutions listed on KASE.

A. Variables

1. Dependent Variable: Leverage (Debt to Equity Ratio)

Debt to equity ratio can be calculated either by using market value or by using book value. The use of book value measure of leverage is preferred in this study. The reason is that optimal level of leverage is determined by the trade-off between the benefits and costs of debt financing. In this study total debt to total equity ratio was used because in Kazakhstan a tendency to use short-term financing even for longer term funding needs is fairly prevalent. There are number of companies that do not have long term debt at all. There are a number of causes for this state of affair. The first is unwillingness of commercial banks to extend longer term facilities, especially after the prolonged financial crisis. The second is relative absence of financial institutions specializing in long term financing, except Kazakh Investment Bank. But this bank finances only the long-term state projects. The third reason is the pure condition of capital market for long term debt. Kazakhstan has only one financial institution for that purposes, the state fund, Samruk-Kazyna, which is strongly regulated by government bodies. Most companies find it quite difficult to access the capital market for debt financing. Under these circumstances, we will consider to take the total debt figure for measuring the companies' gearing level.

2. Independent Variables:

Board Size

The board of directors is top body in the corporate set up, playing central role in a firm's strategic decisions like financial mix. It will therefore be considered an important variable to study the impact of corporate governance on capital structure. The variable Board size is measured as logarithm of number of board members. It is hypothesized that

Board size influences on ownership structure and CEO/Chair duality.

Board Composition Presence of Independent Directors on a company's board gives signal to the market that company is being monitored efficiently so lenders consider company more credit worthy. In turn, this makes it easier for the company to raise long term funds through debt financing. Variable Board composition represents the proportion of independent directors on board and is calculated as the number of independent directors divided by total number of directors. It was examined the influence of this variable on the leverage level.

CEO/Chair Duality If a person holds both positions of chief executive officer and chairman than it may create agency problems. Higher level of control by CEO may lead to managerial opportunistic behavior and can lead to lower gearing levels, as supposed to be analyzed in this study. It is tested that CEO/Chair duality is negatively related to leverage levels. The variable CEO/Chair duality is included as a dummy variable. It is taken as 1 if CEO is chairman; otherwise it is taken as 0.

Institutional Shareholding Presence of institutional shareholding in a company helps it to raise long term finance at an advantageous cost. In the first place, these institutional investors themselves act as a source of long term debt as they are willing to provide debt to a company over whose board they enjoy an influence. Secondly, these institutional investors serve as an effective monitoring device over the company's strategic decisions. They bring down the company's agency costs and also reduce managerial opportunism. This gives confidence to general public and other lenders – resulting in favorable terms of borrowing by the company. It is therefore suggested that firms with higher Institutional Shareholding are likely to have a higher debt to equity ratio. Institutional Shareholding is measured as percentage of shares held by institutions as disclosed in annual financial reports to KASE.

Managerial Shareholding Large debt increases the threat of bankruptcy so higher managerial self interests in long term sustainability of the company may induce managers to reduce gearing levels. Therefore it is suggested that relationship between managerial equity holding and gearing levels is negative. Managerial shareholding is measured as percentage of shares held by members of board disclosed in annual financial reports to KASE.

Private investor's Shareholding

If the financial institutions have private investors in valuable size of shareholding, it also can be rise opportunity to get long-term financing at advantageous cost. There are cases where only few private investors, which are not included in the board of directors, but own the essential large part of shares in the financial institutions. Here it is suggested that relationship between private investor's equity holding and gearing levels is negative.

3. Control Variables:

Size of Firm

Large firms generally have close links with their lenders and find it easy to arrange debt on favorable terms. So it is suggested that there exists a positive relationship between the Size of Firm and leverage level of the firm. The variable Size of Firm is measured as logarithm of total assets.

Profitability as Return on Assets

It is well known from the Pecking Order Theory of capital structure that companies use internally generated funds as first priority to finance project. Then as second priority debt is used and finally option of equity is exercised to finance company projects. Therefore it is assumed that profitability of firms will have negative relationship with leverage levels. In this study Return on Assets (ROA) will be used as measure of profitability and it will be calculated by dividing a company's net earnings by its total assets.

B. An Econometric Model and Methodology

This research employs multivariate regression analysis in a panel data framework to measure the dependence of leverage from the corporate governance variables. The panel data analysis explores cross-sectional and time series data simultaneously. Pooled regression is used with assumption of constant coefficients. Constant coefficient model assumes intercept and slope terms are constant. Debt to Equity Ratio is not only the result of the various financial characteristics of the firm; it is also determined by the decision-makers' choice or management responsibility for corporate performance. Both managers and significant outside owners may influence on decision-making in the firm and, consequently, on financing decisions of the firm.

To investigate whether or not the structure of a firm's ownership has a significant impact on leverage of non-financial institutions, it was chosen the following general form of the model:

$$D_{it} = \alpha_0 + \alpha_1(\log BS)_{it} + \alpha_2(\%ID)_{it} + \alpha_3(\%IS)_{it} + \alpha_4(\%MS)_{it} + \alpha_5(ROA)_{it} + \alpha_6(SZ)_{it} + \alpha_7(DLT)_{it} + \varepsilon_t \quad (1)$$

In (1), D_{it} = Leverage or Debt to Equity Ratio; BS = Board size; ID = Independent Directors, IS = Institutional Shareholding; MS = Managerial Shareholding; ROA = Return on Assets; SZ = Size of Firm; DLT = CEO/Chair Duality; ε = Error Term; α_0 = Intercept of the equation; α_i = marginal effect of variable on debt to equity ratio.

The first result of investigation of this model is the descriptive statistic shown in Panel A1. The second result is the correlation matrix in Panel A2, and the third result is multivariate regression analysis, shown in Panel A3.

To investigate whether or not the structure of a firm's ownership has a significant impact on leverage of financial institutions listed on KASE; it was chosen the following general form of the model:

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In (2), D_{it} = Leverage or Debt to Equity Ratio, BS = Board size, ID = Independent Directors, IS = Institutional Shareholding, MS = Managerial Shareholding, $Pr S$ = Private Investors Shareholding, ROA = Return on Assets, SZ = Size of Financial Institution, DLT = CEO/Chair Duality, ε = Error Term, α_0 = Intercept of the equation, α_i = marginal effect of variable on debt to equity ratio.

The first result of investigation of the model (2) is the descriptive statistic shown in Panel B1. The second result is the correlation matrix in Panel B2, and the third result is multivariate regression analysis, shown in Panel B3.

IV. EMPIRICAL RESULTS

A. Case 1. Non-Financial Listed Companies

Panel A1 in Table I shows the descriptive statistics. Results show that size of board in non-financial listed companies is 11 with largest number of board members and minimum board size is 2 (which is the statutory lower limit for a public company). In Table I the mean is shown as logarithm of number of board members. Independent directors (IDs) constitute in average of 25% of boards which is a fairly good representation for Kazakh companies.

TABLE I
PANEL A1: DESCRIPTIVE STATISTICS

	Minimum	Maximum	Mean	Std. Deviation
Leverage	-66.11	37.06	1.94	6.35
BS	.00	1.05	.62	.22
% ID	.00	6.00	.25	.48
%IS	.00	1.33	.51	.41
%MS	.00	1.00	.45	.40
ROA	-.32	11.70	.11	.60
SF	.89	9.77	7.01	.94
Duality	.00	1.00	.23	.44
N=4680				

Managerial ownership is approximately 45% which is significantly high in the companies which represent retail business and significantly low in oil and gas sector and communication industries. Institutional shareholding is more than 50% which is reasonable, since most of the Kazakh listed companies belong to the government holdings and shareholding is distributed between national companies, pension funds and banks. Average rate of return on assets is 11.5%. Average (total) debt to equity ratio is 1.94 representing a fairly reasonable overall debt to equity ratios.

Panel A2 in Table II shows the results of correlation analysis:

1. Profitability is negatively correlated with debt to equity ratio which is consistent with pecking order theory that firms use internally generated funds as first option to finance projects before resorting to debt.

2. There is a positive relationship between size of board and the size of firm. This appears rational as larger firms have more assets for collateral; they need a large board in order to negotiate better terms and easier for them with lenders. Also, after the crisis in 2006 most commercial banks become very conservative in their lending policies. Prudential Regulations of National Bank of Kazakhstan makes it extremely difficult for commercial banks extent their lending policies. Hence, presence of large boards is necessary for large assets base.
3. Correlation analysis indicates that managerial shareholding is positively correlated with debt to equity ratio. This is quite inconsistent with other studies which argue that as managers' shareholding in a company increases, they tend to bring down the size of firm's debt to reduce the risk and costs of bankruptcy. But for Kazakh non-financial companies, management controlled companies are generally those whose majority equity is held by families, which are always averse to bankruptcy. Also correlation matrix indicates significant negative relationship between managerial shareholding and board size and, also, managerial shareholding and institutional shareholding. It might be explained by fact that most of Kazakh non-financial listed companies with prevailing shareholding by the board of directors usually resist the increase of size of board and compete with institutional shareholders for the influence on the company management.
4. Institutional shareholding is negatively correlated with capital structure at significant level and positively correlated with the size of board. This positive relationship is result of efficient management and reduction of the agency cost. The significant negative correlation between the institutional shareholding and debt to equity ratio is quite consistent with other studies which argue that as institutional shareholding in a company increases, they tend to bring down the size of firm's debt to reduce the risk and costs of bankruptcy.
5. The size of board is found negatively correlated with debt to equity ratio indicating larger boards may apply pressure on managers to follow lower leverage and improve firm performance. An example of this observation is that larger companies have larger boards, and larger companies with larger assets are more motivated to acquire debt at favorable terms.
6. Relationship between percentages of independent directors and institutional shareholding is negative which shows that concentration of ownership leads to reduce the presence of independent directors on boards. This results in evidence of stronger control on firms. This phenomenon is common in government owned businesses in Kazakhstan and it can be said that equity market in Kazakhstan is dominated by government owned companies. This works against the spirit of good corporate governance. These practices unfavorably affect the performance of company as shown by the negative

relationship between Return on Assets and managerial shareholding.

7. CEO/Chair duality is significantly correlated with the ownership structure and the board size, and insignificantly negatively correlated with the capital structure. This

evidence is common for Kazakh companies, where very often the Chair of the board is represented also as a CEO. In this case the interests of board and CEO coincide in decision about the financing of the firm.

TABLE II
PANEL A2: CORRELATION MATRIX

	Leverage	BS	% of ID	% of IS	% of MS	ROA	SF	Duality
Leverage	1							
BS	-0.067	1						
% of ID	-0.018	-0.283**	1					
% of IS	-0.107*	0.191**	-0.011	1				
% of MS	0.06	-0.13**	0.044	-0.19**	1			
ROA	-0.026	0.047	-0.029	0.057	-0.046	1		
SF	-0.001	0.065	-0.042	-0.036	0.025	-0.001	1	
Duality	-0.033	0.205**	-0.024	0.228**	-0.263**	-0.036	-0.004	1

N=4680 observations

* Correlation Is Significant At The 0.05 Level

** Correlation Is Significant At The 0.01 Level

Panel A3 in Table III presents results of multivariate regression analysis of (1).

Results of Multivariate Regression Analysis show that: Multivariate regression analysis provides that an increase of 1% in Profitability leads to 1.7% decrease in leverage and this relationship is significant at $\alpha = 0.05$.

- Results have economic relationship and consist with pecking order theory which assumes that profitable firms use internally generated fund for financing as first choice.
- Debt to equity ratio is significantly affected by Institutional shareholding. Correlation analysis indicates the presence of significant relationship, and regression analysis provides evidence about existence of significant relationship at $\alpha = 0.05$. It may be due to the fact that institutional shareholding provides the enough tangible assets on balance sheet that can serve as collateral so it is relatively easier for the firms to secure debt financing on favorable terms.
- Presence of independent directors on the board has no significant impact on leverage. It may be due to fact that in family owned firms independent directors are generally representatives of financial institutions; no statistics are available how these businesses choose the independent directors, or whether they have any relationship to these businesses. The Code of Corporate Governance has made it mandatory to have independent directors in the board of directors. Similarly, institutional shareholding and CEO/Chair duality has insignificant impact on debt to equity ratio which also verifies the above discussion.

B. Case 2. Financial Institutions, Including Banks, Pension Funds and Insurance Companies

Panel B1 in Table IV shows the descriptive statistics. Results show that size of board in Kazakh listed financial institutions is 7 with largest number of board members and minimum board size is 1 (which is the statutory over limit for a public company as Insurance Company).

TABLE III
PANEL A3: MULTIVARIATE REGRESSION ANALYSIS

	Coefficients	t-Statistics	P-value
Intercept	4.88	1.71	0.04
Board Size	-0.056	-1.025	0.31
% of Independent Directors	-0.035	-0.651	0.52
% of Institutional shareholding	-0.149	-1.707	0.04*
% of Managerial shareholding	-0.069	-0.792	0.43
ROA	-0.017	-0.359	0.02*
Size of firm	-0.003	-0.05	0.01*
CEO/Chair Duality	-0.006	-0.140	0.91

N=4680 Observations

*: Significant At $\alpha = 0.05$

TABLE IV
PANEL B1: DESCRIPTIVE STATISTICS

	Minimum	Maximum	Mean	Std. Deviation
DE ratio	-6.34	26.48	3.9185	4.67349
Board Size	.00	1.00	.6933	.17139
Indep Dir	.00	.83	.3498	.17988
Inst Shr	.00	1.00	.6575	.39258
Mng Shr	.00	1.00	.1099	.27469
Prv Shr	.00	1.00	.1676	.30270
ROA	-3.28	2.80	.0125	.40096
FI Size	6.35	12.43	10.3387	1.47851
CEO/Chair Duality	.00	1.00	.3143	.46590

N=1260

In Table IV the mean is shown as logarithm of number of board members. Independent directors (IDs) constitute in average of 35% of boards which is a fairly good representation for Kazakh companies. Managerial ownership is approximately 10% which is significantly low in the companies which present mostly the operational institutions as banks, insurance companies and pension funds. Institutional shareholding is 65% which is reasonable, since in most of these institutions shareholding is distributed between national companies, pension funds and banks. Average rate of return on assets is lower and is about 1%. In reality, in Kazakh banks,

pension's funds and insurance companies have zero or negative returns from their assets as was exposed in financial reports to KASE.

Debt to equity ratio, in average, is 4% and is higher than for non-financial companies. It can be explained, that pension funds and insurance companies try to avoid large debts, and are averse to bankruptcy.

Panel B2 in Table V shows the results of correlation analysis.

- 1) As we can see, there is a significant positive relationship between debt to equity ratio and board size, institutional shareholding, institution size, and CEO/Chair duality.
- 2) Debt to equity ratio is negatively relates managerial and private investors shareholding

- 3) The relationship between ROA and ownership structure is negative.
- 4) CEO/Chair duality is significantly positively correlated with debt to equity ratio, board size, institutional shareholding and size of institutions. This result is also consistent with previous results and with results presented in literature. Negative correlation of the debt to equity ratio to independence of directors and private investor's shareholding is also consistent with the results discussed early in the literature.

Finally, Panel B3 in Table VI presents results of multivariate regression analysis of (2).

TABLE V
PANEL B2: CORRELATIONS MATRIX

	DE Ratio	Board Size	IndepDir	Inst Shr	Mng Shr	Prv Shr	ROA	FI Size	CEO/Chair Duality
DE Ratio	1								
Board Size	.210**	1							
Indep Dir	.028	.351**	1						
Inst Shr	.169*	.057	-.194**	1					
Mng Shr	-.086	.148*	.138*	-.609**	1				
Prv Shr	-.203**	-.235**	.084	-.672**	-.119	1			
ROA	.073	.116	-.074	.053	-.008	-.053	1		
FI Size	.331**	.295**	.039	.088	-.112	-.108	-.033	1	
CEO/Chair Duality	.275**	.170*	-.174*	.231**	-.027	-.357**	-.006	.338**	1

N=1260

** . Correlation is significant at the 0.01 level (1-tailed).

* . Correlation is significant at the 0.05 level (1-tailed).

TABLE VI
PANEL B3: MULTIVARIATE REGRESSION ANALYSIS

	Coefficients	t-Statistics	P-value
Intercept	-2.722	-.504	.615
Board Size	2.227	.754	.452
% Of Independent Directors	.799	.337	.737
% Of Institutional Shareholding	-2.865	-.717	.475
% Of Managerial Shareholding	-4.470	-1.052	.295
% Of Private Investors Shareholding	-4.846	-1.159	.249
ROA	.790	.842	.401
Size Of Financial Institution	.742	2.484	.014*
CEO/Chair Duality	1.288	1.370	.017*

N=1260

*: Significant At $\alpha = 0.05$

Results of Multivariate Analysis show that:

- Debt to equity ratio is significantly affected by the CEO/Chair duality and Size of financial institutions. Correlation analysis indicates the presence of significant relationship, and regression analysis provides evidence about existence of this significant relationship at $\alpha = 0.05$.
- Other variables of corporate governance have no significant effect on capital structure of the financial institutions, as were predicted by correlation analysis.
- Correlation analysis indicated significance of relationship between debt to equity ratio and board size and institutional shareholding.

V. CONCLUSION

Measures of corporate governance employed in this study are board's size, board's composition, and CEO/Chair duality. Results of this panel study for non-financial firms listed on KASE showed that only institutional shareholding is significantly negatively correlated with debt to equity ratio. Also findings showed that board size is significantly negatively correlated with number of independent directors and managerial shareholding, but positively correlated with the institutional shareholding. Corporate financing behavior is influenced by CEO/Chair duality and the presence of independent directors in the Board of directors. Duality is positively correlated with the institutional shareholding and the board size and negatively correlated with managerial shareholding. Significant negative relationship between profitability and the debt to equity ratio is consistent with pecking order theory. Size of the firm does also influence on the debt financing for non-financial listed companies. Therefore found results suggest that corporate governance variable like institutional shareholding has important role on decision about the leverage of the firm and reflects the managerial responsibility of the firm. Results of the panel study for financial institutions show that board size is significantly positively correlated with debt to equity ratio and with the number of independent directors, and only private investor's shareholding is significantly negatively correlated with debt to equity ratio. CEO/Chair duality is significantly

positively correlated with the debt to equity ratio. The financial institutions' size has also significant effect on leverage. Unfortunately insignificant positive relationship between profitability and the debt to equity ratio is not consistent with pecking order theory for the case of financial institutions. The found results also suggest that corporate governance variables like board size, ownership structure and CEO/Chair duality have important role on decision about the leverage of the financial institutions in Kazakhstan.

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